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Claremont McKenna College

**Tapping the Potential of Sports: Incentives in China's
Reformation of the Sports Industry**

Submitted to

Professor Minxin Pei

by

Yu Fu

for

Senior Thesis

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Abstract

Since the 2010s, China's sports industry has undergone comprehensive reforms. This paper attempts to understand this change of direction from the central state's perspective. By examining the dynamics of the basketball and soccer markets, it discovers that while the deregulation of basketball is a result of persistent bottom-up effort from the private sector, the recentralization of soccer is a state-led policy change. Notwithstanding the different nature and routes between these reforms, in both sectors, the state's aim is to restore and strengthen its legitimacy within the society. Amidst China's economic stagnation, the regime hopes to identify sectors that can drive sustainable growth, and to make adjustments to its bureaucracy as a way to respond to the society's mounting demand for political modernization.

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Chapter I: Introduction

China was not a well-known sports market in the world until Stephon Marbury's success. The two-time NBA All-Star, who suffered from depression after a rift with his team and fans, quitted the NBA, and rebuilt his life in China.¹ After two mediocre seasons with Shanxi and Foshan, Marbury joined the Beijing Ducks, and helped the team win three championships within four years. More importantly, he won the heart of the city. His social media account now has four million followers, and he has a museum showcasing his basketball career, sitting only five kilometers away from the Tiananmen Square.² In April 2016, Zhang Jiandong, the Vice Mayor of Beijing, handed over his permanent residence card to the basketball star at the City Hall of Beijing, acknowledging his "significant and extraordinary contribution to China."³

Among all the drama that the Chinese sports market has seen in recent years, many are not as positive as the story of Marbury's. In fact, short-sightedness and "money-burning" are the more commonplace connotations.⁴ According to the *Mirror*, Chinese Super League (CSL), the top-tier soccer league in China, "set a new spending record of £331 million in the winter window of 2017," exceeding the total expenditures

¹ Ben Golliver, "Stephon Marbury Admits He Was Depressed, Suicidal at Time of Vaseline Video," SI.com, January 17, 2015, accessed April 19, 2017, <https://www.si.com/nba/2015/01/17/stephon-marbury-sucidal-depressed-hbo-sports-china-knicks#>.

² Stephon Marbury, "Stephon Marbury Weibo Bio," Sina Weibo, accessed April 19, 2017, <https://weibo.com/u/1683814612>; Marc J. Spears, "Stephon Marbury: Remade in China," The Undeclared, December 28, 2016, accessed April 20, 2017, <http://theundeclared.com/features/stephon-marbury-re-made-in-china/>.

³ Mengjia Hao, "Beijing Municipal Government Confers Resident Card to Marbury," People, April 18, 2016, accessed April 19, 2017, <http://sports.people.com.cn/BIG5/n1/2016/0418/c22176-28285094.html>.

⁴ Xiaobo Wang, "CSL Clubs' Money Burning Shocks the World," iFeng, January 5, 2017, accessed April 19, 2017, http://news.ifeng.com/a/20170105/50528935_0.shtml.

of the English Premier League during the same time period.⁵ The 2016-2017 Chinese Basketball Association (CBA) champion, Xinjiang Tigers, is estimated to have spent over 100 million yuan (USD 14.3 million) in the past few seasons.⁶ Not only professional clubs are throwing money at world's top players, Chinese sports media and event sponsors are also increasingly aggressive for business opportunities in the sports arena. In January 2015, Tencent, China's Internet giant, secured a five-year broadcasting deal with the NBA for USD 500 million.⁷ Months later, another business conglomerate Alibaba signed as "Presenting Partner of the FIFA Club World Cup."⁸ In 2016, another digital video platform LeSports acquired two year's exclusive broadcasting rights of Chinese Super League (CSL) for a record-breaking 2.7 billion yuan (USD 392 million).⁹ It seems that all the well-positioned corporations in China have recognized the potential of the country's sports market within a few years. The question thus arises: what has led them to believe in this yet-to-be-mature market?

Several persuasive explanations exist. The first ascribes the rapid market growth to the rising middle class, arguing that the country's increased disposable income has driven consumption in entertainment and sport. Data from the World Bank support this

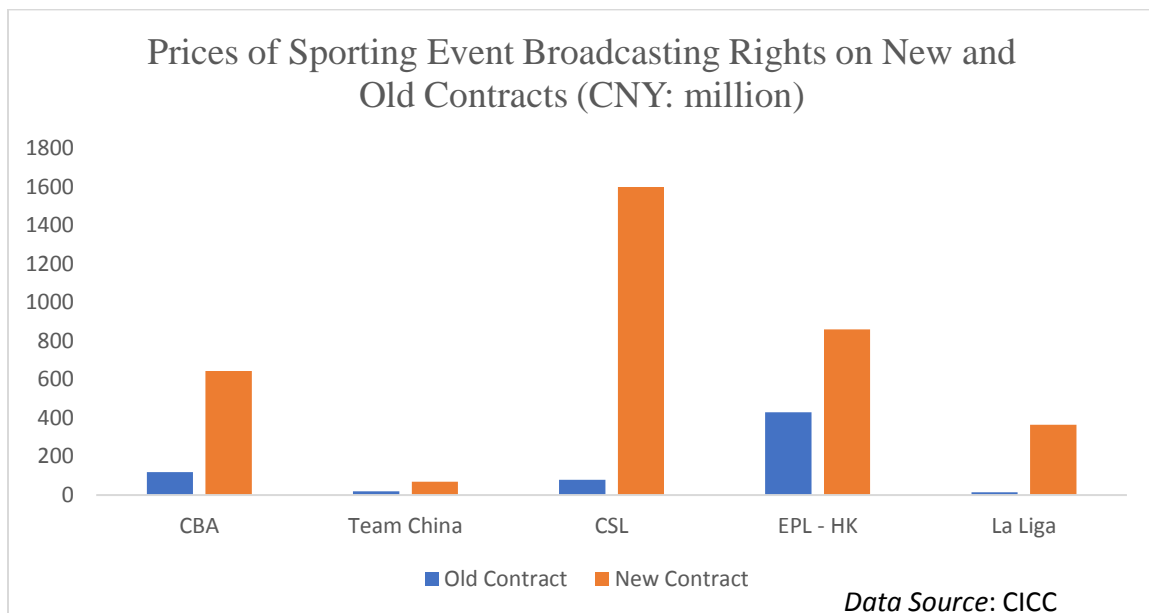
⁵ Neil McLeman, "Chinese Super League Winter Transfer Window Closes with Record Spend," *Mirror*, February 28, 2017, accessed April 19, 2017, <http://www.mirror.co.uk/sport/football/news/chinese-super-league-winter-transfer-9937705>.

⁶ Xiao Liu, "Xinjiang Winning Championship Is the Best Outcome of the Money Burning Era," *Lanxiong Sports*, April 9, 2017, accessed April 19, 2017, <http://www.lanxionsports.com/?c=posts&a=view&id=5792>.

⁷ Xiruo Liu, "Tencent Secures 5-year NBA Exclusive Broadcasting Deal at 5 Million Dollars," *The Beijing News*, January 31, 2015, accessed April 19, 2017, <http://finance.chinanews.com/it/2015/01-31/7022312.shtml>.

⁸ FIFA, "Alibaba E-Auto Signs as Presenting Partner of the FIFA Club World Cup," news release, December 9, 2015, FIFA, <http://www.fifa.com/clubworldcup/news/y=2015/m=12/news=alibaba-e-auto-signs-as-presenting-partner-of-the-fifa-club-world-cup-2743056.html>.

⁹ "LeSports Acquired 2-year CSL Broadcasting Deal for 2.7 Billion Yuan," *Sina Sports*, February 23, 2016, accessed April 19, 2017, <http://sports.sina.com.cn/china/j/2016-02-23/doc-afxprucu3152468.shtml>.



argument, showing that China's GNI per capita rose from USD 940 in 2000 to USD 7,930 in 2015.¹⁰ According to the National Statistics Bureau, nearly half of this income was at people's own disposal.¹¹ The extra paycheck has allowed the Chinese people to spend more money on leisure than ever, and its concurrence with the economy's slowdown in the past few years even strengthens the sports market growth.¹² In fact, China's sports consumption market is benefiting from "the lipstick effect," meaning that the society now spend less money on big items and resort to cheaper investments to "cheer themselves up."¹³ Since watching and playing sports are much more affordable than car purchases and vacations abroad, the rising middle class tend to spend more on

¹⁰ "GNI per Capita, Atlas Method (current US\$) of China," chart, in *World Bank Group*, <http://data.worldbank.org/indicator/NY.GNP.PCAP.CD?locations=CN>.

¹¹ "2015 National Data," *National Bureau of Statistics of the People's Republic of China*, accessed April 19, 2017, <http://data.stats.gov.cn/easyquery.htm?cn=C01>. According to the National Statistics Bureau, the disposable income per capita of 2015 is 21,966 yuan (USD 3,189).

¹² "China's Economic Slowdown," *The Wall Street Journal*, August 14, 2016, accessed April 19, 2017, <https://www.wsj.com/articles/chinas-economic-slowdown-1471194066>.

¹³ Larry Elliott, "Into the Red: 'lipstick Effect' Reveals the True Face of the Recession," *The Guardian*, December 21, 2008, section goes here, accessed April 19, 2017, <https://www.theguardian.com/business/2008/dec/22/recession-cosmetics-lipstick>.

these activities now, than during the good times. With a larger population willing to consume sports-related goods and services, firms have also become more confident in their decisions to invest in the market.

The second explanation emphasizes the change of social norms. As the world becomes more interconnected, international sporting events and stories on these events are also pouring into China, mostly via television and Internet. After insisting on the superiority of the socialist model for decades, the public started to recognize the advantages of the Western sports model, and to press for a more market-oriented approach. The case for deregulation dates back to the 2008 Olympic Games, but this anti-totalitarian argument was then repressed by the state.¹⁴ Two weeks after the closing of the Beijing Olympics, many netizens unleashed their skepticisms against *juguo tizhi*, China's totalitarian sports system, during an online chat with an official from the State General Administration of Sports (SGAS).¹⁵ The official avoided straightforward answers to these questions, but argued that reform would be a gradual process.¹⁶ In the following years, the state became more lenient on criticisms against the system. Commercial media, and even sports officials, began to openly examine the disadvantages of it.¹⁷ In 2012, China's basketball legend Yao Ming publicly criticized the elite sports system on the World Economic Forum (Davos) in Tianjin, which was a globally live streamed event, and did

¹⁴ Xiaozheng Xiong, "Juguo Tizhi Might Disintegrate, But Reformation Is a Gradual Process," People, September 10, 2008, accessed April 19, 2017, <http://www.people.com.cn/GB/32306/54155/57487/7916008.html>.

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ "We Look Forward to Gold Medals in Other Arenas," IFeng, August 13, 2012, accessed April 19, 2017, <http://news.ifeng.com/opinion/special/jinpai/>; Xuelin Jiang, Lingyan Huang, and Jianshan Zhong, "Director of the Management Center of Gymnastics: Seek New Ways of Scouting beyond the Totalitarian System," China News, October 9, 2014, accessed April 19, 2017, <http://www.chinanews.com/ty/2014/10-09/6660497.shtml>.

not encounter any backlash.¹⁸ The society completely flipped over the narrative within years. After the Rio Olympics, in which the Chinese delegation won three less gold medals than they did in London, and thirteen less than in Beijing, the society did not put blame on the athletes, but recognized the urgent need to transform China's sports system and not to overemphasize gold medals.¹⁹ The public's engagement in the anti-Soviet-model narrative may have conveyed a message to the corporate sector. The private firms see the potential opportunities not only in the mass fitness business, but also in professional sports that would boom after the highly likely deregulation. This belief leads to massive investments, in order to set the stage for future development in the market.

Although arguments based on the economic and social factors are compelling, this study primarily focuses on the third explanation to the boom – the state's leadership in the sports industry reform. It hypothesizes that the state has played a crucial role to the recent growth in the sports market by initiating a top-down sports industry reform, and aims to identify the incentives for this reform. The state embarked on this policy change in 2014. On October 2, the State Council of China announced its reformation roadmap for the sports sector – the *Opinions on Accelerating the Development of the Sports Industry and Promoting Sports Consumption*. This document, often referred to as the *Document 46*, specifies that the Chinese sports industry should “exceed 5 trillion yuan (USD 73

¹⁸ Danyang Luo, "Yao Ming Pulling an End to the Totalitarian System," Sina, September 12, 2014, accessed April 19, 2017, <http://finance.sina.com.cn/zt/china/20140912/073420274301.shtml>.

¹⁹ Didi Tang, "In China, 'Happy Gymnastics' Replaces Grind of Strict Study," Associated Press, July 13, 2016, accessed April 20, 2017, <http://bigstory.ap.org/article/9c7217f0bc554ee08ecd808bdbead535/china-happy-gymnastics-replaces-grind-strict-study>.

billion) by the end of 2025,” and “become a crucial force in facilitating sustainable growth of the economy and the society.”²⁰

Considering the historical background, it was unusual for the State Council to issue such a detailed reformation plan for sports at this point. First, sports had rarely been regarded as a driving force for China’s economic growth in the Chinese Communist Party (CCP) era. By 2015, revenues from the sports industry constituted only 0.6% of the national GDP.²¹ Compared to the U. S.’s 3%, China’s sports industry contributed minimally to the national economy. Second, the industry’s economic performance in the past few years was not doomed. From 2000 to 2009, the sports industry had already undergone substantial growth, partly due to the Olympic Games in Beijing – during this period, China’s spending on sports increased by 20% annually, 1.6 times faster than its national GDP growth.²² Besides, the goals that the Document proposes are extremely ambitious, considering the current standing of the market. According to the National Statistics Bureau and Credit Suisse’s analysis, the size of China’s sports industry in 2014 was 386.4 billion yuan (USD 56.1 billion), merely 7.7% of the state’s goal of five trillion.²³

²⁰ People's Republic of China, State Council, *Opinions on Accelerating the Development of the Sports Industry and Stimulating Sports Consumption*, October 20, 2014, Developmental Suggestions, http://www.gov.cn/zhengce/content/2014-10/20/content_9152.htm.

²¹ David Hao, Dick Wei, and Evan Zhou, *China Media Entertainment Sector - Credit Suisse Securities Research and Analytics*, report, September 25, 2015, China Sports: The Rise of Mass Fitness.

²² *The Sports Market: Major Trends and Challenges in an Industry Full of Passion - ATKearney*, report, 2011, <https://www.atkearney.com/documents/10192/6f46b880-f8d1-4909-9960-cc605bb1ff34>.

²³ Hao, Wei, and Zhou, *China Media Entertainment Sector - Credit Suisse Securities Research and Analytics*; "National Data." *National Bureau of Statistics of the People's Republic of China*.

However, the release of *Document 46* illuminates the changing mindset of the state, with regards to how it can take advantage of the development of sports. Since the establishment of the CCP regime, Chinese athletes have been serving the socialist system by winning medals in international competitions, particularly in the Olympic Games. By 2014, the National Statistics Bureau still listed the numbers of world championships, elite athletes, and coaches as indicators of national sports development, whereas the economic aspect of the industry was not included in its statistics.²⁴ By issuing *Document 46*, the state abandoned this communist way of thinking and took a market-oriented approach. In fact, *Document 46* does not even touch on topics such as “gold medals,” “championships,” or even “the Olympic Games” that have been prevalent in previous propaganda.²⁵ By contrast, it calls for deregulation, innovation, engagement of the social forces, structural improvement, and growth from the mass fitness sector.²⁶

The announcement of *Document 46* marks China’s state-led effort to disintegrate and commercialize its deeply rooted totalitarian sports system. This study examines the driving forces for this policy change and how the policy has, so far, affected the sports sector. Specifically, it delves into two cases: basketball and soccer. Both sports are popular among the masses, and designated as the “beginning point” for the deepening of the reform.²⁷ To better understand the dynamics of these changing markets, this paper breaks down the market into different actors: the state, local governments, the bureaucracy, and the private sector. It analyzes each actor’s actions and their impact on

²⁴ “2014 National Data – Indicators – Sports,” National Bureau of Statistics of People’s Republic of China.

²⁵ People’s Republic of China, State Council, *Opinions on Accelerating the Development of the Sports Industry and Promoting Sports Consumption*.

²⁶ Ibid.

²⁷ Ibid.

the reform. While the central state is our major research interest, a disassembly of these actors can shed light on how the state's policies have influenced the market's decisions, and to which direction has these policies led the sports sector in practice.

Chapter II: Literature Review

Of the abundant resources on China's state policies on sport, most have focused on Beijing and its Olympics frenzy. Nowadays, while the Olympic Games still plays a vivid role in China's overall sports policy, professional and mass sports have also come into play. The Chinese government has endeavored to increase private investment and mass participation in sports in recent years, and this action needs to be examined in greater detail. To better understand Beijing's intention, this chapter reviews literature from a wider range of topics, including sports policy and societal changes, sport reforms in post-communist states, and sport policies and regimes, in addition to the long-been-discussed Olympic medal fever.

Sports and Authoritarian Regimes

Since the establishment of the People's Republic of China, sports policy has always served political purposes and has thus often paralleled with more far-reaching transitions within the Chinese society. Fan Wei, Fan Hong and Lu Zhouxiang reflect on the trajectory of CCP's sports policies since the 1920s.²⁸ Even before 1949, communists promoted sports exercises as a part of their political campaign.²⁹ The Red Army fighting in the mountainous areas of Jiangxi initiated the Red Sports Movement (RSM) in schools, factories, and the military in the 1920s, and expanded it to the New Sports Movement in

²⁸ Fan Wei, Fan Hong, and Lu Zhouxiang, "Chinese State Sports Policy: Pre- and Post-Beijing 2008," *The International Journal of the History of Sport* 27, no. 14-15 (2010), doi:10.1080/09523367.2010.504583.

²⁹ Ibid, 2381.

1936, when the regime established itself in the city of Yan'an.³⁰ The CCP, during this period, targeted at the masses and aimed to “train a fit, obedient, and disciplined workforce.”³¹ After winning the civil war in 1949, the Party began its Sovietization of the sports system. Following the “Two Chinas” issue with the International Olympic Committee (IOC) in 1952, Beijing realized the importance of China’s sports performance to the regime’s prestige internationally.³² The Party leaders built a Soviet-style structure, with a Sports Ministry to organize provincial and local sports, organized quadrennial National Games, and shifted its focus from mass sports to elite training programs.³³ After the Great Leap Forward and the Great Famine in early 1960s, the government further retracted the number of government-funded athletes to a more elitist base, because the state’s financial and food shortage were becoming concerning.³⁴ During the Cultural Revolution between 1966 and 1976, the CCP realized sports was a valuable diplomatic tool and reestablished formal bilateral relations with the United States with its famous “ping-pong diplomacy.”³⁵ The regime started to give a breathing space to commercialization and globalization in the 1980s, as the “reform and opening-up” campaign took place in the entire country. Central and local governments have given fiscal rewards to Olympic medalists since then. Meanwhile, research centers were established to seek enhancement of the elites’ athletic performance. Since the 1990s, the CCP has advocated for the “National Fitness Programme (NFP),” along with its long-

³⁰ Ibid.

³¹ Ibid, 2398.

³² Ibid, 2382.

³³ Ibid, 2383.

³⁴ Ibid, 2386.

³⁵ Ibid, 2388.

existing “Olympic Strategy.”³⁶ However, the regime’s enthusiasm for hosting the Olympic Games and its two bids in 1993 and 2001 demonstrated that the focus was still on elite sports.³⁷ The authors believed that the resources allocated to top athletes would still be sufficient after the 2008 Olympic Games, and that elite sports would continue to play a leading role in the government’s sports policies in the coming years.³⁸

Many scholars believe that the rise of an urban middle class and decentralization of the national economy are the most important reasons for the recent transitions in China’s sports sector. Huan Xiong argues that the urbanization process has transformed China’s sports culture from the grassroots level.³⁹ While the government still holds firm control on elite sports, the rise of the urban class has created a demand for facilities and state policies that can accommodate the need of mass sports.⁴⁰ Similarly, Zhang Jie points out that China’s sports industry has transitioned from an arena of public welfare before the “reform and opening-up” to an increasingly mature market nowadays.⁴¹ Although the central government had not taken definite positions on sports market reforms until 2014, Eleni Theodoraki argues that the commercialization has taken place since the 1990s, with financial rewards given to the elite athletes and commercial sponsorship that the

³⁶ Ibid, 2389.

³⁷ Ibid.

³⁸ Ibid, 2398.

³⁹ Huan Xiong, "The Evolution of Urban Society and Social Changes in Sports Participation at the Grassroots in China," *International Review for the Sociology of Sport* 42, no. 4 (2007), doi:10.1177/1012690208089836.

⁴⁰ Ibid.

⁴¹ Jie Zhang (2015) Reality and Dilemma: The Development of China's Sports Industry since the Implementation of the Reform and Opening-Up Policy, *The International Journal of the History of Sport*, 32:8, 1085-1097, DOI: 10.1080/09523367.2015.1022720.

individual sport federations accepted.⁴² Despite imbalances between sports and regions, the federations had become more independent from the central government, and the rewards have provided a capitalist incentive, which is distinct from pure patriotism, to elite athletes, coaches, and trainers.⁴³

Others state that socio-political reasons are the determining factor behind the state's enthusiasm for sports. Xu Guoqi in his book, *Olympic Dreams: China and Sports, 1895-2008*, recognizes that the Chinese people have collectively carved out a modern national identity and washed off the "sick man of East Asia" label with the state's successes in the Olympics. Xu goes further and speculates about a sports revolution, in which people across social classes can unleash their anger, anxiety, and social injustice in China together.⁴⁴ Fan and Lu (2012) also attribute the state's and the public's conjoint Olympic medal fever to the rise of nationalism following traumatic experience with Western imperialist powers and Japan.⁴⁵ Despite the fact that "reform and opening-up" has allowed private sector to enter the game, the main purpose of commercialization in the sports system is still to secure necessary funding for the politically significant elite sports.⁴⁶

Scholarly works on post-communist sports sector reforms exhibit a few distinctions amid many similarities to that in China today. According to James Riordan,

⁴² Eleni Theodoraki (2004) Sport management reform, national competitiveness and Olympic glory in the People's Republic of China, *Managing Leisure*, 9:4, 193-211, DOI: 10.1080/1360671042000317289.

⁴³ Ibid.

⁴⁴ Guoqi Xu and William C. Kirby, *Olympic Dreams: China and Sports, 1895-2008* (Cambridge: Harvard University Press, 2009).

⁴⁵ Hong Fan and Zhouxiang Lu, "From Barcelona to Athens (1992-2004): "Juguo Tizhi" and China's Quest for Global Power and Olympic Glory," *The International Journal of the History of Sport* 29, no. 1 (2012): 113-131, doi:10.1080/09523367.2012.634987.

⁴⁶ Ibid.

after the USSR collapsed, many well-known Soviet athletes turned their back to the Soviet regime and its sports system they used to praise frequently.⁴⁷ There was also a “brain” and “muscle drain” after the political transition, as athletes and coaches rushed to richer Western countries that were interested in recruiting and training high-performance athletes.⁴⁸ Sandrine Poupaux examined the course of the former Soviet bloc’s sports reform. According to Poupaux, China, in the 1980s, was the first among socialist countries to open up to leisure sports that cost money to practice, and the Soviet Union and other socialist countries followed in 1985 to restructure their sports system.⁴⁹ The economic hardship of the Eastern bloc in the late 1980s led to reduced funding in elite sports, and the Soviet government had to strive for a balance between spending and sports participation – they ended up selling athletes to the Western European and North American countries while encouraging private investments in sport clubs.⁵⁰ In the 1990s, the collapse of the USSR was accompanied by more difficult economic transitions and the dissolution of the Soviet sports system.⁵¹ The government eventually retreated from the sports scene, and sports in the post-soviet countries became closer to the Western model.⁵²

Comparatively, the reform in China is destined to be more gradual, as there has been no regime change that will allow athletes to openly criticize the political leaders and

⁴⁷ Jim Riordan, "The Rise and Fall of Soviet Olympic Champions," *OLYMPIKA: The International Journal of Olympic Studies* 2 (1993): 40, accessed April 19, 2017, http://library.la84.org/SportsLibrary/Olympika/Olympika_1993/olympika0201c.pdf.

⁴⁸ Ibid.

⁴⁹ Sandrine Poupaux, "Soviet and Post-Soviet Sport," in *Handbook on the Economics of Sport* (Cheltenham, UK: Edward Elgar, 2009), 316-324.

⁵⁰ Ibid.

⁵¹ Ibid.

⁵² Ibid.

the sports system. In addition, while there had been elite Chinese athletes, mostly table tennis players and divers, emigrating to Western countries for many years, less elites take this option nowadays, since playing sports within China has become much more profitable. To the CCP, conducting privatization reforms at this point would not necessarily risk the country's performance significantly in the Olympic Games. Moreover, the Soviet government, when allowing privatization of the sports sector, was less voluntary than the Chinese government today, which has a better financial standing and more authority within the society.

With regards to sports and the regime, Victor Cha proposes the notion of “cocktail of history, sport and politics,” arguing that sport is more political in Asia than in rest of the world, due to scarcity of mega sporting events, historical resentment toward imperialist powers, and the region's fast pace of development.⁵³ The CCP regime, while gaining the prestige and influence it had wanted for hosting the Olympic Games, has also made reluctant policy changes, such as its softened position on South Sudan, under mounting international pressure.⁵⁴ James Riordan lists a number of factors, including nation-building, ethnic and regional integration, defense, health of population, social policies, international prestige, and foreign policy, that have made sport crucial to communist regimes.⁵⁵ Riordan believes that the process of nation-building, associated with the centralized sports system, is more important than the communist ideology itself

⁵³ Victor D. Cha, "Winning Is Not Enough: Sport and Politics in East Asia and Beyond," *The International Journal of the History of Sport* 30, no. 11 (2013), doi:10.1080/09523367.2013.793177.

⁵⁴ Ibid.

⁵⁵ James Riordan, "The Impact of Communism on Sport," in *International Politics of Sport in the Twentieth Century* (TAYLOR & FRANCIS, 2016), 48.

to motivating patriotism in socialist countries.⁵⁶ He also illustrates the advantages of the socialist sports system and potential risks once it dissolves – for example, female athletes and ethnic minorities have better chance to thrive under the Soviet system than in the supposedly more advanced Western European countries.⁵⁷ Although the social changes and reform trajectory that China is currently going through today differ from the experience of most post-soviet states, the precedents have shed light on the feasible pathways to successful sports system reform and the upcoming consequences.

Arthur Johnson categorizes domestic sport policies into integrative, symbolic, and instrumental, and identifies strategies by which opposition would attack these policies.⁵⁸ Johnson states that integrative policy manipulates people's value systems by openly promoting sportsmanship, symbolic policy requires massive government subsidies and aims at image building, and instrumental policy rebalances benefits distributed among participants within the sport system.⁵⁹ In each of the three regimes, government designs its policies based on values of the society, while opposition navigates themselves to exploit sport, particularly by attacking the symbolic policies, to generate support. While Johnson's analysis primarily focuses on democratic regimes, the result is enlightening to the discussion on Beijing's rationale forming its new sports policies and on the informal oppositional forces against the old system.

⁵⁶ Ibid.

⁵⁷ Ibid.

⁵⁸ A. T. Johnson, "Government, Opposition and Sport: The Role of Domestic Sports Policy in Generating Political Support," *Journal of Sport & Social Issues* 6, no. 2 (1982), doi:10.1177/019372358200600203.

⁵⁹ Ibid.

Chapter III: Commercialization of the Professional Basketball Market

At the 2019 FIBA World Cup bidding presentation, Zhang Jiandong, the Vice Mayor of Beijing, claimed that “At least 300 million people play basketball in China, and if we can host the 2019 FIBA Basketball World Cup, we will see an even higher participation.”⁶⁰ While Zhang might have exaggerated the number, there is little doubt that basketball is one of the most watched and participated in sports in the country. The game’s popularity has led many to believe that once the market is fully commercialized, it will quickly contribute significant growth to the national sports economy. This chapter primarily focuses on China’s professional basketball market, in which heated discussion regarding whether the market should privatize has existed for over a decade. Early in 2004, Li Yuanwei, former Director of the Management Center of Basketball (MCB), realized the necessity to accelerate commercialization of the Chinese basketball leagues, and took substantial steps in this direction during his two terms at the MCB.⁶¹ However, after Li’s retirement, his successor, Xin Lancheng, was reluctant to continue the reforms, because they were at odds with his personal interest. The deregulation in the basketball market did not restart until the end of the Olympic Games in 2016, nearly two years after the release of *Document 46*. By then, the central government could no longer resist pressure from the private sector and the general public for a departure from the old soviet-style system.

In this decades-long struggle, the private sector has been steadily increasing its

⁶⁰ "Yao and Pacquiao Lead Displays of Passion in Lead-up to 2019 FIBA Basketball World Cup Decision," FIBA.com, July 8, 2015, accessed April 20, 2017, <http://www.fiba.com/news/yao-and-pacquiao-lead-displays-of-passion-in-lead-up-to-2019-fiba-basketball-world-cup-decision>.

⁶¹ Yuanwei Li, "Regarding the Ideological Liberation of Basketball" (speech, The Close-out Meeting of 2003-2004 CBA Season, Dongguan, April 4, 2005), <http://www.cba.gov.cn/show.aspx?id=490&cid=43>.

influence on public opinion and the central government, whereas the bureaucracy has not only lost its authority, but also become less valued and trusted by the central state. After the 2016 Rio Olympics, the state took the pressure of the national team's performance off shoulder, and eventually sided with the private sector to facilitate market reforms.

Private Sector on the Rise: the "Gold Rush"

Basketball's enormous fan base in China makes the sport so lucrative that the private sector endeavors to tap into every sub-sector of it. On the one hand, direct rivalries within the same category compete aggressively for the scarce profitable resources, such media and sponsorship rights of top professional leagues; on the other hand, these private businesses connect with each other and work as a group against the state's monopoly. Such examples can be observed as China's emerging technology firms have gradually outperformed the state and provincial media, and as team investors and league sponsors have steadily gained more influence in the market. The private sector's financial capability and profit-oriented strategy have appeal to the general public and to the state. Alliance with these actors have given the private sector momentum in their battle with the conservative bureaucracy.

With globalization and the development of technology, digital media is one of the first arena that Chinese private firms have tapped into, and they have quickly become competitive with the state media. Three decades after the "open and reform" policy, China's private sector has built greater financial capacity to contest the state-owned enterprises. In 2014, China's Internet giant Tencent signed a broadcasting deal with the NBA for USD 500 million, securing exclusive digital rights of all NBA games in China

for five years.⁶² While the deal is smaller than the ESPN-TNT partnership in the United States, it more than quintupled all previous NBA broadcasting deals in China.⁶³ When former NBA Commissioner David Stern brought free NBA game video tapes to cater to China's state media, CCTV, in 1986, no one would have imagined this league could achieve success in the world's largest country today.⁶⁴ For decades, the NBA league yielded its broadcasting rights to CCTV at discounted rates, sacrificing short-term financial gains for the sake of market development in China. Its strategy proved to be successful, since the NBA has gained great coverage and popularity in China, as CCTV's sports channel has been broadcasting a few games per week for free. The media rights negotiation in 2014 not only allowed the NBA to reap the benefits, but foreshadowed the collapse of CCTV's enduring monopoly on sporting events. Before the emergence of private digital media, CCTV generated tremendous revenue from advertisers in game broadcasts, since it faced virtually no competition. Although the state has not eased its restrictions on private television channels, digital media has emerged, able to provide high quality broadcasting services and participate in a freer market competition for media rights deals. Unlike the state media that is obliged to serve the public for free, the private platforms are entitled to provide paid services for consumers, and they can generate income from businesses as well as subscribers. According to an industry insider, Tencent has ensured "eight figures (in Chinese yuan)" from NBA subscriptions, advertisements,

⁶² "LeSports Has an Awkward Situation. Whose Cheese Did Tencent Move with the 500 Million Deal?" Sports, June 17, 2015, <http://industry.sports.cn/news/ss/2015/0617/107054.html>.

⁶³ John Lombardo and John Ourand, "ESPN, Turner Will Pay A Combined \$24B In New Nine-Year NBA Media Rights Deal," Sports Business Daily, October 6, 2014, accessed April 20, 2017, <http://www.sportsbusinessdaily.com/Daily/Issues/2014/10/06/Media/NBA-media.aspx>.

⁶⁴ "Seventeen Years Ago, Stern Waited for an Hour at CCTV to Hand out Free NBA Videos," Sina, October 25, 2006, <http://sports.sina.com.cn/k/2006-10-25/02542526765.shtml>.

and sponsorships in its first year of partnership with the league.⁶⁵ Although the specifics of NBA's current television deal with CCTV and the television's earning from it has not been disclosed, the amount that CCTV has paid can hardly exceed the digital deal, considering the higher competition level in the digital media market. While the advertisers may still be willing to invest more on television advertisements at this point, the gap will diminish as consumers become more used to the digital platforms.

Furthermore, services that the private media platforms provide are more tailored to customers' demand, while the state media often prioritizes political objectives. Non-state service providers have greater incentives to invest in research and development, which can improve user experience and, thus, maximize its profits. As an Internet platform, Tencent has invested tens of millions to upgrade their studio and signal transmission equipment since 2014.⁶⁶ These upgrades have allowed it to broadcast multiple games simultaneously, and at high quality. As a result, the platform can accommodate fans of each team and tailor its programs to different tastes. By contrast, CCTV can broadcast no more than two NBA games per day, not to mention its timetable is often subject to change for political purposes. For example, the channel once delayed an important NBA game to live stream a Chinese Dragon Boat Contest, which would supposedly promote awareness of Chinese traditional culture.⁶⁷ Similarly, a taped game of China's Women's National Volleyball team interrupted the final seconds of a live NBA playoff game, and

⁶⁵ Chen Wang, online interview by author, November 10, 2016.

⁶⁶ Zheng Zhao, "A Settling Race on Media Rights. Chinese Sports Platforms Compete on Contents," Sina, April 08, 2016, accessed April 20, 2017, <http://finance.sina.com.cn/roll/2016-04-09/doc-ifxrcizu3856209.shtml?cre=financepagepc&mod=f&loc=1&r=9&doct=0&rfunc=100>.

⁶⁷ Yang Xu and Han Peng, "CCTV Broadcasts Dragon Boat Contest. NBA Fans: Why Not Just Stay in Bed," China News, December 17, 2012, accessed April 20, 2017, <http://www.chinanews.com/ty/2012/12-17/4412416.shtml>.

the Winter Olympics replaced a Champions League soccer match, despite the latter would attract considerably greater viewership.⁶⁸ Besides, Tencent quickly developed and improved its IOS and Android applications after it secured the broadcasting deal. These upgrades were made to ensure quality live streams for the company's paid customers on mobile devices. Since most NBA games take place in the morning per China time, these applications have great appeals to the basketball fans, who are predominantly young professionals and students. While CCTV was one of the first Chinese media platforms to have developed a digital broadcasting branch, the quality of its programs has barely improved over the years.

While private firms have brought innovative technology and quality services to the basketball market, the promising business has also drawn capable investors from other industries, and put the industry's traditional players under risk. Anticipating the state to endorse the sports industry in the coming years, private companies that used to focus on other industries rush into the field. The Wanda Group, one of China's largest real estate and cinema chain operating company, has become a big player in the basketball market in the past two years. In February 2015, Wanda confirmed acquisition of 68% shares of Infront Sports & Media for €10.5 billion (USD 11.2 billion).⁶⁹ The Swiss sports marketing and event operation corporation possesses the marketing and media rights of China's national basketball teams and the business operation rights of the Chinese Basketball Association (CBA) League. These assets are among the key factors to

⁶⁸ Ibid.

⁶⁹ Laurie Burkitt, "Dalian Wanda to Buy Swiss Sports Group Infront," The Wall Street Journal, February 10, 2015, accessed April 20, 2017, <https://www.wsj.com/articles/dalian-wanda-to-buy-swiss-sports-group-infront-1423540058>; Huiling Li, "Wang Jianlin Elaborates on Wanda Sports' Four Approaches," Caixin, December 4, 2016, section goes here, <http://topics.caixin.com/2016-12-04/101023042.html>.

Wanda's acquisition, in addition to Infront's rights to many other top-tier sporting events in the world.⁷⁰ Shortly after the acquisition, Wanda inked a long-term strategic partnership deal with FIBA, which would cover the 2019 Basketball World Cup to be held in China.⁷¹

While Tencent, Wanda and other multi-industry conglomerates have a diversified portfolio to buffer risks in the basketball market, it is more difficult for the traditional players to keep up with the game. Li-Ning, a Chinese sports manufacturer and the CBA's current exclusive apparel partner, paid 2 billion yuan (USD 298 million) for a five-year deal in 2012, while its annual revenue at the time was merely USD 972 million.⁷² The company's gamble resulted in a 1.6 billion yuan (USD 233 million) operating deficits, a 260.7% debt-to equity ratio, and a liquidity crisis within one year.⁷³ According to the *Financial Times*, Li-Ning had a net loss of USD 94 million in the first half of 2015, and the USD 59 million sponsorship fee, which is due to the CBA annually, greatly contributed to this crisis.⁷⁴ The company did not recover until 2016, when its net income reached USD 16.9 million. Although the number was still lower than its direct competitors, it was a notable improvement from three consecutive years of net losses.⁷⁵

⁷⁰ Zhenghao Fu, "Infront Begins Priority Contract Extension Negotiation with the CBA," Sports Money, January 10, 2017, accessed April 21, 2017, <http://sports.sohu.com/20170110/n478361463.shtml>.

⁷¹ The International Basketball Association (FIBA), "FIBA Joins Forces with Wanda to Raise Global Impact of Basketball," news release, June 16, 2016, FIBA.com, accessed April 20, 2017, <http://www.fiba.com/news/fiba-joins-forces-with-wanda-to-raise-global-impact-of-basketball>.

⁷² Li Ning Company Limited, "Annual Report 2013," news release, Irasia, accessed April 20, 2017, <http://www.irasia.com/listco/hk/lining/annual/ar122630-e02331.pdf>.

⁷³ Ibid.

⁷⁴ Patti Waldmeir, "Li Ning's Rise and Fall Marks a Cautionary Tale," *Financial Times*, January 23, 2015, accessed April 20, 2017, <https://www.ft.com/content/0ece54f6-a03d-11e4-aa89-00144feab7de>.

⁷⁵ "Li Ning Releases Semi-annual Report for 2016 First Half. Three Positive Signals Besides 113 Million Net Profits," Sports Money, August 11, 2016,

Despite the financial hardship that the CBA sponsorship imposed on the company, Li-Ning has, nevertheless, benefited from an improved brand image and expanded market. According to a recent study, while Li-Ning's sponsor status in the 2013-2014 CBA season did not boost immediate CBA-related merchandising sales, it did lead people to think that "Li-Ning in general is a good company."⁷⁶ With one year left in Li-Ning's sponsorship contract, it is still uncertain whether sponsoring the CBA has been a wise decision for the corporation.

While private firms have been able to engage in the media and marketing fields, the state has been controlling the professional leagues since the 1990s. China has a legacy of totalitarian sports system (*juguó tìzhì*) that was imported from the Soviet Union in the 1950s. While the society has mostly adopted market reforms in the past thirty years, the sports institutions have fallen behind in the transition. Till this day, most China's elite basketball players are still attached to provincial sport bureaus, which provide funding for their early years of development and after-retirement rearrangements. Many franchises in the professional sports leagues receive different forms of financial and policy support from the provincial or municipal governments. Moreover, the CBA league, which was organized, invested in, and promoted by the state has been a public property. Ultimately, the goal of the current CBA league is not to make profits, but to entertain the Chinese sports fans, to prepare Chinese players for international competitions, and to subsidize women's basketball and youth development, which are less profitable but as politically important as the men's league.

<http://www.sportsmoney.cn/article/51384.html>.

⁷⁶ Liangda Chen, "Sponsorship Effectiveness on Purchase Intention - Fan Involvement, Congruence and Corporate Image" (Master's thesis, Hong Kong Baptist University, 2014), 34.

However, the private actors have seen the business potential in professional basketball, and have long been pressing for privatization of the league. Since the CBA transitioned from an inter-provincial basketball competition to a “professional” basketball league in 1995, to whom the league’s business operation rights belongs has been a heatedly discussed issue. In 1997, seven CBA clubs formed a “Professional Basketball League Organizing Committee (PBLOC)” without the participation of the MCB, aiming to initiate a bottom-up revolution to privatize the CBA league.⁷⁷ However, the SGAS strongly opposed the proposal, criticizing it as “a meeting of no organization and no discipline that surpassed legal entitlements of clubs.”⁷⁸ Under mounting political pressure, PBLOC dissolved in months. In 2005, Beijing and Shanghai led the second bottom-up attempt to facilitate reform.⁷⁹ They submitted a business operation proposal that would yield the league’s decision making power to the clubs to Li Yuanwei, the former Director of the MCB and a well-known liberal reformist within the state apparatus.⁸⁰ Li, again, declined the clubs’ appeal, because the new season was about to begin.⁸¹ Although the bureaucracy did not immediately accept the proposal, it did not openly denounce the privatization ideals like it did in 1997.⁸² On the contrary, the meeting opened up bilateral conversations, and Li Yuanwei has chosen to take sides with the reformists since then.

The most well-organized and promising club-led endeavor took place in December 2015, when Yao Ming, China’s basketball legend and Shanghai Sharks’ owner,

⁷⁷ Zhenghao Fu, "CBA's Two "Revolutionary Alliance" and One "Independence Movement,"" NetEase, accessed April 21, 2017, <http://sports.163.com/special/cbazi/cbakaoguxi5.html>.

⁷⁸ Ibid.

⁷⁹ Ibid.

⁸⁰ Ibid.

⁸¹ Ibid.

⁸² Ibid.

summoned eighteen of the twenty CBA clubs to press the MCB for eventually privatizing the operation rights of the league. This club union soon founded the *Zhongzhilian* (Chinese Professional Basketball Association) Company in 2016.⁸³ Yao managed to engage the MCB into several rounds of negotiations with his personal influence, but these negotiations all ended up futile, owing to the passive attitudes of the officials.⁸⁴ Moreover, only three days after *Zhongzhilian* was founded, the basketball federation announced its decision to establish a federation-led CBA Company, and claimed it would grant the operation rights of the league to this company.⁸⁵ Yao publicly accused the MCB of “sustaining the old system under a new name,” as it insists on “retaining the federation’s rights to leadership, operation, and management” in the new company.⁸⁶

Despite all the failed attempts to privatize league operations, the private actors have, nonetheless, navigated through the political barriers and gained greater influence in the CBA in other ways. First, to tap future opportunities in the market, private investors have deviated their capital to the franchises instead of the league. Throughout the two decades of CBA’s history, most teams have made the transitions from provincial or military ownerships to capitalist ownership structures. In the 1995 CBA season, three of the eight teams – Beijing, Jilin, and Liaoning – were affiliated with provincial-level governments, four – Bayi (the Army), Jinan Theater Command, Nanjing Theater Command, and Guangzhou Theater Command – were attached to the military, and the

⁸³ Ge Tang and Wenjun Wu, "The CBA Company Failed to Reach Agreement with the Federation. Who Refused to Compromise?" People, April 22, 2016, <http://sports.people.com.cn/n1/2016/0422/c350728-28296413.html>.

⁸⁴ Ibid.

⁸⁵ Ibid.

⁸⁶ Ibid.

other one – the Pioneers – was composed of policemen.⁸⁷ However, by 2016, local governments only had shares in four of the twenty clubs – Liaoning, Bayi (the Army), Zhejiang Chouzhou Bank, and Jiangsu Kentier.⁸⁸ All other sixteen franchises either had private ownerships or mixed ownership with the participation of local state-owned enterprises (SOEs).⁸⁹ Furthermore, according to *the Sports Money*, three teams have filed for IPO in China's newly established National Equities Exchange and Quotation (NEEQ) stock market for mid-level and small-scale corporations.⁹⁰ Within years, other club owners may follow this trend and seek to finance their businesses, taking advantage of the stock market.

Second, the rise of market forces has urged the state actors to conform to the laws and rules of the business world, rather than imposing regulations on non-state actors at its will. In 2004, the federation and its associated puppet corporation signed a multi-year sponsorship contract with ANTA, to avoid bankruptcy.⁹¹ Because the federation appreciated the sponsorship, it used executive orders to force all clubs and players to use ANTA's apparels exclusively, although it was not entitled to do so. However, during the 2016-2017 season, when the federation and its agent, Infront, breached their contract with TAG Heuer, the Swiss watch manufacturer filed a lawsuit against them, and won within a

⁸⁷ "1995 Chinese Men's Basketball Elite Eight: CBA Was Born This Way," Sina, December 7, 2015, accessed April 21, 2017, <http://sports.sina.com.cn/k/2005-12-07/01521921204.shtml>.

⁸⁸ Zhenghao Fu, "Capital's Three Strategies to Participate in the CBA: IPO on NEEQ and Acquisition of NBL Teams," *Sports Money*, December 13, 2016, accessed April 21, 2017, <http://sports.sohu.com/20161213/n475796920.shtml>.

⁸⁹ *Ibid.*

⁹⁰ *Ibid.*

⁹¹ "A Memo of CBA's Business Operation: Yangcheng Evening News Almost Caused an Unsponsored League. IMG and Infront Brought Good Luck," NetEase, December 30, 2015, accessed April 21, 2017, <http://sports.163.com/15/1230/10/BC2U77TH00052UUC.html>.

year.⁹²

In short, since the first professional basketball league was established in 1995, private companies have seen enormous potential in this market and have enthusiastically participated in the competition, with other market forces and the administrative body. On the one hand, the engagement of the private sector has driven considerable growth, and challenged the state monopoly over the market. Because of the emergence of privately funded media, investors, and sponsors, the state apparatuses have become obligated to diversify their political-oriented contents, build up their financial strengths, and conform to laws and regulations, in order to remain relevant in the increasingly competitive basketball market. On the other hand, the private capital can often be blind in this rush for gold. China's professional basketball market, like all other budding industries, faces volatility and unpredictability, accompanied with problems that are more unique to the country, such as cut throat competition and weak rule of law. Regional inequalities also rise: several teams have chosen to relocate to the more economically advanced East Coast in recent years, generating more opportunities in the East and left the Central and Western China further left behind. One of the most economically liberal province, Guangdong, now hosts three teams, and Beijing, Shandong, Jiangsu and Zhejiang each host two. Twenty provinces and autonomous regions do not have any professional basketball teams at this point.

⁹² "CBA Sponsor Won the Business Dispute Lawsuit. Infront China May Need to Pay over One Million," Tencent, February 15, 2015, accessed April 21, 2017, <http://sports.qq.com/a/20170215/016114.htm>.

The Bureaucracy and Local: Conflicting Ideals from Within

In the case of China's professional basketball market, the direct regulators are the MCB, which is a department of the GAS, and MCB's puppet "non-governmental" organization – the Chinese Basketball Association (federation). Meanwhile, many of the professional basketball teams still have direct or indirect linkages to local sport bureaus, which are both subsidiaries of the GAS and branches of the provincial or municipal governments. As a result of this parallel leadership structure, mid-level bureaucrats often find their goals contradictory from within. Owing to the communist legacy, Chinese sports officials are obligated to both glorify the region with satisfying sports performance, and, sometimes, enhance the economic growth of the region under their jurisdiction. However, these two sets of goals are inherently self-contradictory. While the economic development objectives welcome market-driven growth, the political agendas discourage large-scale deregulation.

In fact, sports bureaucrats more often opt to pursue the latter, considering the lower risk of preserving the status quo than of introducing changes. Xin Lancheng, the current Director of the MCB, is a quintessential conservative bureaucrat that has been consistently blocking proposals to reform the basketball market. In 1998, as the Director of the MCB, Xin declined the olive branch extended by the seven clubs that founded the Professional Basketball League Organizing Committee and warned other clubs not to join the organization.⁹³ When the clubs showed more collectiveness and determination to challenge the current system in 2015, Xin fought back even more tenaciously by accelerating the establishment of the countering CBA Company within days. Xin and the

⁹³ Fu, "CBA's Two "Revolutionary Alliance" and One "Independence Movement.""

MCB triumphed and launched the company on November 22, 2016, and all twenty clubs attended the press conference held by the federation.

Opposing the privatization of the CBA league, Xin Lancheng has several reasonable concerns as the top leader of the MCB. First, a commercialized CBA poses great risks to Xin's political career. The MCB manages and funds all professional basketball leagues and all national level teams, including the women's and youth's leagues and teams. Since these entities appear to be less tempting to sponsors than the CBA, the federation has to manipulate the earnings of the men's league to subsidize them. While women's basketball is less profitable, China's women's national team has been outperforming the men's in the Olympics and World Championships for decades. Since the teams of both genders carry equal weight when assessing the officials' job performance, Xin and his colleagues will rather retain the resources at their hands to preserve the prestige of the women's team and league than simply give in to the private firms that will solely focus on the more profitable men's basketball.

Ultimately, medals weigh more than market growth when it comes to the assessment of China's sports officials by their supervisors. As an example, Cai Zhenhua, the former Head Coach of China's National Table Tennis team who led the team to win all gold medals in the 2000 Sydney Olympics, was quickly elevated to the Deputy Head of the GAS, a post equivalent to any vice minister of the state, within seven years since his retirement from the national team.⁹⁴ In contrast, several directors of the Management Center of Football (MCF), which has introduced privatization and stimulated enormous

⁹⁴ Dong Wu, "Cai Zhenhua Promoted to Vice Chair of the State General Administration of Sport," NetEase, April 12, 2007, accessed April 21, 2017, <http://sports.163.com/07/0412/04/3BRPSGA20005227R.html>.

economic growth over the past twenty years, were either prosecuted over charges of corruption or suffered overwhelming attacks from Chinese society, due to the national team's unsatisfactory performance.⁹⁵ Although China's national basketball teams may not be able to win gold medals in the foreseeable future, whether they make progress in the international competitions is still the primary factor that has determined the state's evaluation of the basketball-related officials.

Second, the MCB, like many other segments within the Chinese government, emphasizes stability over timely reforms. In an interview with Tencent in 2009, Xin admitted that he was reversing some of the liberalization measures. "I am fine with the words 'reversal' or 'restoration,' but the league cannot stand any overturning problem."⁹⁶ With Xin's risk-averse ideology, the MCB has initiated a pilot privatization program in the National Basketball League (NBL), formerly the League B, as an experiment for the CBA. Although the privatization experiment of the NBL has been welcomed by most team owners so far, the MCB still consider it too risky to immediately apply to the CBA.

While resistance from the MCB poses a challenge to all CBA teams that seek to facilitate market reforms, local governments and sport bureaus bind the hands of some while providing support for the others. Unlike the sport system officials whose performance are evaluated based on the medal boards, most bureaucrats in provincial and municipal governments see economic performance as the main driver for promotions and rewards. Therefore, they often enthusiastically endorse the development of professional

⁹⁵ "The Storm of Anti-Gambling in China's Soccer Arena," Xinhua, accessed April 21, 2017, <http://www.xinhuanet.com/sports/ztfdfb/>.

⁹⁶ "Xin Lancheng: I Inherited but Did Not Oppose Li Yuanwei. I Did Not Persecute Wang Zhizhi," Tencent, June 30, 2009, accessed April 21, 2017, <http://sports.qq.com/a/20090630/000154.htm>.

basketball and their local teams, which can create job opportunities, infrastructure projects, consumption, and other drivers for economic growth. According to NetEase's investigation, subsidies from local governments and local state-owned enterprises have become a major part of clubs' income.⁹⁷ Beijing and Liaoning receive USD 3 million and USD 1.5 million government subsidies every year, respectively.⁹⁸ Other local governments also provide hundreds of thousands of dollars for their teams.

Although most CBA teams contribute to the growth of related industries, whether the local governments support the team and even the league to privatize differs from case to case. In the wealthier regions, teams are more likely to be self-sustainable, and the local governments often endorse marketization, so that the teams can retain its earnings rather than sharing it with other teams within the league. Beijing Ducks' recent success has been an exemplary model that many cities seek but are not able to follow. After signing the NBA marquee player Stephon Marbury in 2011, the team has won three championships in the past five years. Because of these accomplishments and Marbury's celebrity effect, Beijing has become one of the few CBA clubs that is making a profit.⁹⁹ Spectators fill the NBA-standard arena, willing to pay USD 15 to 400 for the entertainment, and even more for the team's merchandises. Moreover, the success of the Beijing Ducks has given rise to hundreds of youth basketball training camps, a handful of basketball theme parks, and a thriving business circles surrounding the team's home court. Should the team entitled to its own courtside advertising boards and various sponsorship rights, it could have profited a lot more than it now receives from Infront, which is

⁹⁷ "CBA Team Operations: The Federation as the "Communal Dining Hall,"" NetEase, accessed April 21, 2017, <http://sports.163.com/special/cbzt/cbashengcunbgao1.html>.

⁹⁸ Ibid.

⁹⁹ Ibid.

essentially one twentieth of the totalized sponsorship revenues after deduction of Infront's earnings and funds devoted to women's and youth's basketball.¹⁰⁰ Because of this calculation, the Beijing Ducks has been advocating for market reforms, although it is one of the few franchises attached to state-owned enterprises.

By contrast, teams that are not yet able to generate profit by themselves and are dependent on local governments for funding and resources have obligations to the local government. In some cases, local governments view these local teams as their assets, since the governments have devoted public resources, such as funding, venues, and talents, to the benefits of their local teams. Zhejiang Chouzhou Bank was one of the two teams that did not engage in the club's union led by Yao Ming. When asked why Zhejiang would not join the reform, Fang Jun, General Manager of the club explained, "The CBA is a state-owned property. Any change needs to go through complicated processes. Our club is located in Zhejiang, an economically advanced province and a progressive advocate in the national economic reforms. We must make any decision with great caution."¹⁰¹ The response seemed contradictory at one's first glance, but the club's close relationship with the provincial government, indeed, gave its management little incentive to change the status quo until the political leaders approves. According to the club's official website, the team was jointly owned by Zhejiang Professional Sports Institute, a province-owned sports institute "overseen by Zhejiang Sport Bureau and

¹⁰⁰ "CBA Team Operations: The Federation as the "Communal Dining Hall.""

¹⁰¹ "Zhejiang Explains Why It Did Not Join Zhongzhilian: CBA Is Public. Yao Ming Does Not Have a Chance to Take Over," NetEase, April 8, 2016, accessed April 21, 2017, <http://sports.163.com/16/0408/09/BK4B6S8J00052UUC.html#p=BDN73MJ25GUP0005>; "Zhejiang: We Were Not Involved with Zhongzhilian. We Support the Decision to Establish CBA Company," NetEase, April 15, 2016, <http://sports.163.com/16/0415/10/BKMHRQGQ00052UUC.html>.

instructed by Zhejiang Education Bureau,” and Zhejiang Chouzhou Bank, a local commercial bank based in Yiwu, a county-level city with merely 1.2 million residents in Central Zhejiang.¹⁰² The players and coaches on the team are primarily elevated from the former Zhejiang Provincial Basketball Team, which has also been maintained with local tax revenues. To reciprocate the Bank’s financial support, the government relocated the team from the provincial capital, Hangzhou, to Yiwu. Since Yiwu itself has not been a big market to generate ticketing and sponsorship revenues from, the team has become more financially dependent on the government. In this example, the local government is a stakeholder in both the basketball team and the Chouzhou Bank. By acting as a middleman between the local sports franchises and financial institutions, Zhejiang’s local officials have successfully enabled the team to continue its operations in the province, hence continue to help beautify their performance with regards to economic growth and social prestige.

In some rare cases, local governments are able to intervene even though the teams have been completely privatized. In 2013, Wang Xingjiang, a billionaire and former team owner of Shanxi Zhongyu, decided to sell the team due to operating deficits.¹⁰³ After having reached agreements with Beijing Enterprise (*Beikong*) and proceeded with the federation and Beijing Sport Bureau, the Shanxi government started to obstruct. Shanxi’s political leaders believed that the team should have stayed in Shanxi and be

¹⁰²“About the College,” Zhejiang College of Sports, <http://www.zjcs.net.cn/webDetail.php?I=2441&T=1>; “About Us,” Zhejiang Chouzhou Commercial Bank, <http://www.czcb.com.cn/gywm/index.shtml>.

¹⁰³ Bean, “Wang Xingjiang: Shanxi Had 150 Million Deficits. Chinese Players Are Becoming Worse and Worse,” IFeng, December 13, 2013, http://sports.ifeng.com/lanqiu/detail_2013_12/13/32116292_0.shtml.

operated by a local enterprise.¹⁰⁴ Eventually, Shanxi Fenjiu, a local state-owned enterprise re-acquired the team from Beijing Enterprise with a 40 million yuan (USD 5.78 million) margin, and relocated the team back to Shanxi Province.¹⁰⁵ Interestingly, Shanxi's Head of the Sport Bureau sobbed on the press conference, grateful for the understanding of Beijing Enterprise, and of his counterparts in Beijing's local government.¹⁰⁶

The examples of Beijing, Zhejiang, and Shanxi demonstrate that the primary goal of local governments is to ensure that at least one CBA team, no matter what its ownership structure is, remains in the locality. By either providing incentives or applying administrative orders, local officials manage to hold the team and subsequently take credit for economic benefits and political prestige that come along. However, the alignment of these goals often lead to different thinking with regards to the privatization of the league. Governments which believe league privatization can benefit their local teams and economy tend to encourage their teams to take one step further, whereas governments of smaller basketball markets often remain conservative about the reform. Occasionally, local governments even interfere in the operations of private teams, provided that such teams' operation would affect local officials' political standing.

Sport bureaucrats and local officials form the layer in between the center and the private sector, regulating the daily operations of the league and influencing team

¹⁰⁴ Jianguang Wang, "Shanxi Zhongyu Was Barely Reacquired. Bureaucrat Sobbed and Thanked Beikong for Understanding," Tencent, November 12, 2013, accessed April 21, 2017, <http://sports.qq.com/a/20131112/003132.htm>.

¹⁰⁵ "Chaos Occurs Again with Shanxi Zhongyu's "Transfer Affair,"" China Daily, September 19, 2013, http://www.chinadaily.com.cn/tydp/2013-09/18/content_16979086.htm.; Jian Hu, "Shanxi's Transfer Affair Comes to an End. Fenjiu Reacquired from Beikong for 180 Million," China News, November 9, 2013, <http://www.chinanews.com/ty/2013/11-09/5482772.shtml>.

¹⁰⁶ Ibid.

decisions with political power. However, neither of the two middlemen is incentivized to facilitate the market reform for which both the private sector and the central government yearn. In order to change the status quo, the central government has to seek help from outside the system to achieve its goal.

The Central Government:

Although many hold the belief that the Chinese ruling elites will counter the private-sector-driven commercialization attempts, to defend their own interest, it is precisely the central state that made the market reforms in basketball possible. In *Document 46*, the government explicitly “encourages professional leagues,” and calls for “improvements on professional sports clubs’ enterprise structure, transformation of professional leagues’ decision making processes, and maximizes the leadership of the clubs within the market.”¹⁰⁷ These policies all apply well to basketball. Among the different actors in the market, China’s central government is still the most powerful one that can, to the greatest extent, determine to which direction the sector will advance. Therefore, the central government’s decision to endorse the market forces has eventually given a jumpstart to the basketball market reform after years of heated, yet fruitless debate.

The private sector, and the state bureaucracy had long been maintaining a brittle equilibrium in the power struggle, until the ruling elites recently became determined to break the balance, in favor of the private sector. In January 2017, the new Head of the GAS Gou Zhongwen issued “ten suggestions” that aimed to facilitate market reforms,

¹⁰⁷ People’s Republic of China, State Council, *Opinions on Accelerating the Development of the Sports Industry and Promoting Sports Consumption*.

while keeping up the pace of administrative regulation. In his suggestions, Gou particularly proposed that Yao Ming, the leader of the bottom-up revolutionary attempt to privatize the CBA (league), should assume the post of the next President of the CBA (federation) and the Head Coach of the Men's National Team.¹⁰⁸ He also pressured the federation to release the business operation rights to the recently established CBA Company, and encouraged infrastructure upgrades that would allow more diversified and entertaining goods and services.¹⁰⁹

Within a week after the distribution of the “suggestions”, the CBA (federation) reversed Xin's rejection of the reformists' proposal, that only took effect less than one year ago. Li Yingchuan, the Deputy Director of the GAS, declared on a press conference of the Chinese Basketball Association (federation), that “We hope that the federation can bravely initiate a revolution on itself, create new paths, unravel the interest conflicts among different institutions, resolve the long-lasting issues of the entangled state and society, state and private sector, and management and business operation.”¹¹⁰ The federation also managed to reach a reconciliation with Yao Ming and other clubs owners that participated in the revolution in 2016. Yao, who used to have concerns regarding the conflicting interest between the roles of the president of the federation and ownership of the Shanghai Sharks franchise, eventually decided to take this responsibility. Indeed, he made the compromise by agreeing to sell the Shanghai Sharks that he currently owns.¹¹¹

¹⁰⁸ Leishi Jia, "Breaking: GAS Invites Yao Ming to Head up the CBA and National Team," *Basketball Pioneer*, January 2, 2017, <http://sports.sina.com.cn/cba/2017-01-02/doc-ifxzcfc6672392.shtml>.

¹⁰⁹ Ibid.

¹¹⁰ Jiayuan Fan, "Basketball Reformation: This Time, It's Real," *People*, January 10, 2017, <http://sports.people.com.cn/n1/2017/0110/c14820-29010241.html>.

¹¹¹ ErPai, "Yao Ming Has Transferred 30% of Shanghai's Shares. Local Government Hopes to

The state's decision to select Yao was humiliating for the bureaucrats, who had declined the club owners' petition to reform the league less than a year ago. This decision indicates that the ruling elites' favors the privatization forces over the conservative bureaucrats led by Xin Lancheng. Having represented the sports sector in the 12th National Committee of the Chinese People's Consultative Conference (COPCC), Yao had the opportunity to develop deeply-rooted connections with China's political leaders.¹¹² Compared to the bureaucrats, Yao arguably has more access to the political center, an advantage that has paved way for his transition to a political career. According to NetEase, the GAS had informed Yao about its decision to appoint him prior to the 2016-2017 CBA season, and Yao has been preparing for his change of role ever since.

While having determined to facilitate general sports industry reform since 2014, the central government has been rather patient with the basketball market. Most reformative measures in basketball has come into effect since 2016, two years after the *Document No.46* was issued. Stability is one of the top considerations. The year of 2016 is an "Olympic year" to the Chinese government and public. Since the team sports' performance in the Olympics can greatly influence public opinions, the state was also more cautious about changes in these sports. While the zeal for Olympic gold medals have gradually diminished in recent years, the elites would still not take any risk before

Copy SIPG and Build a CBA Powerhouse," NetEase, March 16, 2017, accessed April 21, 2017, <http://sports.163.com/17/0316/07/CFKQIDD50005877V.html>; ErPai, "Yao Ming's Order before the Season: Enter the Playoffs, to Sell the Team at a Good Price," NetEase, March 16, 2017, accessed April 21, 2017, <http://sports.163.com/17/0316/07/CFKQVFFH0005877V.html>.

¹¹² COPCC is China's top consultative political body that consists of minority party members, people's organizations, ethnic minorities, leaders of different sectors, residents of Taiwan, Hong Kong, and Macau, and special invitees, from People's Republic of China, Chinese People's Political Consultative Conference, The National Committee, *Chinese People's Political Consultative Conference*, May 11, 2011, <http://www.cppcc.gov.cn/2011/09/27/ARTI1317102198751744.shtml>.

the four-year Olympic cycle smoothly concludes.

The time frame also coincides with the leadership transition in the SGAS and MCB. Gou Zhongwen, a technocrat who has led youth soccer development programs as the Vice Party Secretary of Beijing and worked as Vice Ministry of China's Information Technology Industry, replaced Liu Peng and became the Head of GAS in 2016.¹¹³

Considering the central government's dedication into "developing a new generation of soccer players" since the inauguration of President Xi Jinping, Gou's experience of promoting grassroots soccer has greatly beautified his resume.¹¹⁴ Moreover, as the private sector became increasingly well-connected with the center, some insiders from China's pyramid of political officials have lost trust from the political leaders, who now cherish the alliance with influential political outsiders. Xin Lancheng, a professional bureaucrat that had been dedicated to protecting the "state-owned basketball league" throughout his career, was considered as a threat by the private forces. Ironically, his retirement was also considered the best window to facilitate bolder reforms by the ruling elites.

While the examples of official appointment and time window of reform have demonstrated the power of China's central government when influencing the basketball market reforms, the motives behind the push are also intriguing. In short, the state's market-oriented approach derives from its performance-based legitimacy, sensitivity to public opinions, and intention to co-opt the outsider elites. Per the *Opinions*, the state aims to "stimulate domestic consumption, boost employment, and foster new economic

¹¹³ Yukun Li, "Gou Zhongwen Appointed as the Head of the State General Administration of Sport. Referred to as a "Technocrat,"" Beijing News, November 22, 2016, accessed April 21, 2017, <http://news.qq.com/a/20161122/001223.htm>.

¹¹⁴ Chris Buckley, "President Xi's Great Chinese Soccer Dream," The New York Times, January 04, 2017, accessed April 20, 2017, https://www.nytimes.com/2017/01/04/world/asia/china-soccer-xi-jinping.html?_r=0.

development,” as well as to “promote national spirit and facilitate national unity and cultural competitiveness.”¹¹⁵ With the stagnation of China’s general economy, the government hopes to release the business potential of China’s professional sports market, particularly that of the popular team sports including basketball. The business successes of CBA teams such as the Beijing Ducks and Guangdong Winnerway have further convinced the officials of the market’s promising future. To encourage more investments into the market, the center initiated many reformative measures, even if they may have hurt interests of some political insiders.

In addition to economic considerations, another reason for the elites’ determination to reform is the rise of the public against the bureaucrats, who are often associated with the totalitarian sports system. Prior to the 2016 Olympic Games, Xin Lancheng had once become one of the least popular Chinese officials among the netizens because of his bureaucratic work style and the condescending way he had treated Yao Ming and the national team’s Head Coach, Gong Luming, both of which are popular among Chinese sports fans and netizens. The transition from Xin to Yao parallels with the central government’s hope to depart from the image of stiff Soviet-style political machine to that of a new, progressive system that suits China’s unique circumstances. The economic impact of the privatization of a sport on the general economy may be minimal, but the social impact of the state’s initiative to promote reforms in this market can be much more far-reaching.

Last but not least, China’s political elites have more and more realized the significance of support from outside the political realm. With the rise of private

¹¹⁵ Ibid.

enterprises, businessmen such as Wang Jianlin, Ma Yun, and even Yao Ming, have increasingly become opinion leaders among the public, in addition to their personal successes. Also, the business empires they have under control possess tremendous power that can be dangerous if used against the regime. As a result, coopting these private sector leaders is essential for the state to maintain political stability within the country. By compromising with Yao and the other club owners' request, the central state may risk losing the loyalty of mid-level bureaucrats, but they will ultimately benefit from winning the support of the now more crucial private sector.

In summary, China's central state has, so far, been the only party that can determine whether and when reforms can take place in the basketball market. The arrangement and timing of the reforms reveal a great amount of influence exerted from the ruling elites and the SGAS on recent transformation of the sport. By leading the system into a more market-oriented direction, the authorities aim to boost sports economy, diverge from association with the Soviet-style bureaucracy, and coopt leaders from outside the regime.

Trends

Recent changes in China's professional basketball market exhibit an advancing private sector, a retreating bureaucracy, and a powerful authoritarian regime. While it appears that the regime unilaterally accelerated the market reforms of basketball to a new level, it is precisely the non-regime factors that pressed for this transformation for years.

With the declining popularity of the elite sports system and the state bureaucracy, the ruling elites can only maintain their grip on power by invite the opposition to the

decision-making process. In the basketball market reform, Yao Ming and other club owners have played a much more crucial role than it appeared. Although the State Council had announced its plan to promote sports economy since 2014, it would not have challenged the status quo, or the existing power structure that favored the sports bureaucracy, if the private players in the basketball market had not pressed for immediate changes. In other words, the SGAS, agent of the central government on sports-related issues, did not take the initiative to rebalance interests until it realized it was a necessary compromise to retain the regime's authority and the market's stability. Ultimately, sharing power with Yao is still more desirable than losing the trust and support from all team owners, who at this point are arguably able to organize their own professional league and write their own rules. Thus, the regime chose the least worst option, because all other alternatives were considered even more devastating.

Generally speaking, the undergoing basketball market reforms, a result of the long-lasting power struggle between the bureaucracy and the private sector, will benefit China's basketball market in the long run. By deregulating the operation of the league and decentralizing related businesses, the hidden potential of sports media, event operation, and sports sponsorship markets may eventually be realized.

However, the fact that the reform is not spontaneous but a result of cooptation is concerning in three ways. First, while the new arrangement has extended power to non-political forces, it has not increased transparency of the system. Yao had acknowledged the elites' decision to promote him well ahead of time, and was able to boost the team and prepare for a resale in the market, but the rest of the CBA teams did not have access to this information until the final decision was announced, not to mention the sponsors,

the media, and other stakeholders of the league. Ultimately, the decision-making power in the market has become more inclusive only in the most minimal way. A necessary first step, the reform is far from comprehensive.

Second, the privatization process itself may aggravate already existing problems in the market. With more free competition yet unmatching regulative structure, regional disparities may continue to rise. Compared to the OECD countries, China has outstanding inequalities across regions, and the East has been significantly richer than the West. With political forces involved, local governments and corporations in the West are at least incentivized to invest in the market. However, if such preferential politics diminishes, basketball may eventually become a game of the East Coast in China.

Third, it is urgent for the regime to appease the bureaucracy to avoid backlash from within. The elites have wisely chosen a transitional period, in which the old bureaucratic leaders have reached their retirement age, to launch the reform. However, the integration of outsiders in the power sharing arrangement has sacrificed interest of the younger bureaucrats. For example, Li Jinsheng, the former Deputy Director of the MCB and the natural successor of Xin Lancheng, had to accept the office while acknowledging Yao would be equal, if not superior, to him in the new arrangement. Other officials in the MCB and the federation, who have been trained to maintain the current system, may find their skill set useless and their existence undesirable to the new leadership.

Chapter IV: Xi's Soccer Dream

In an interview in 2016, Hao Haidong, one of China's best players of all time and an outspoken critic of the current system, told *Renwu Magazine*, "In the entire society, there is no rule. No etiquette. We have soccer, but we do not have a soccer culture. It is a minuscule of the society. Everything is interconnected."¹¹⁶ Hao admitted he was one of the beneficiaries of the system, but nevertheless mourned for its thousands of unheard victims.¹¹⁷ Soccer was the first sport to have been through major reforms in China, but its years of unsuccessful attempts at transformation have so far only brought despair and frustration. With the inauguration of President Xi Jinping, an allegedly diehard soccer fan, Chinese officials have once again set out to reform the soccer market and court the supreme leader. However, this recently announced reform will recentralize the market and largely reverse the progress that has been achieved in the past two decades.

History of China's Soccer Reforms

As early as 1992 the CCP felt the urge to change its soccer system.¹¹⁸ After the men's national team lost to South Korea, which led to its failure in the qualification games for the 1992 Barcelona Olympics, President Jiang Zemin sensed the widespread public discontent and advised Sports Minister, Wu Shaozu, to provide a long-term reformation plan for the sport.¹¹⁹ Within a year, the Chinese Football Association (CFA)

¹¹⁶ Zhuo Zhang, "Hao Haidong's Story Is Never Just a Soccer Story," *Renwu Magazine*, June 13, 2016, <http://mp.weixin.qq.com/s/IDWaJG0QAI3rQBScPNgcJw>.

¹¹⁷ Ibid.

¹¹⁸ Fan Hong and Lu Zhouxiang, "The Professionalisation and Commercialisation of Football in China (1993-2013)," *The International Journal of the History of Sport* 30, no. 14 (2013), doi:10.1080/09523367.2013.828710.

¹¹⁹ Fangjian Dong, "The Reform of Chinese Football must be Continued" (China Sport Daily,

called for a historical meeting in Red Mountain Valley, or *hongshankou*, and decided to carry out professionalization and commercialization reforms at the request of Li Tieying, a Politburo member in charge of sports.¹²⁰ Wu later recalled in his book that Li advocated for the league system and suggested that soccer should be able to become financially self-sufficient after the reform.¹²¹ Within two years, a two-division league system that included Pro A and Pro B was established. Similar to the operation model of the basketball market, the CFA sold the marketing rights of the entire league to the International Management Group (IMG), and decided to distribute 80% of the revenue to the teams, while retaining 20% for administration and youth and women's soccer.¹²²

Although the reform was successful in the beginning, with all participating teams surviving on their own income by 1994, and profiting by 1999, it decayed very soon, as the business became so lucrative, and the regulative measures so superficial, that massive corruption and match-fixing became commonplace.¹²³ From 1994 to 2009, the involvement of teams, players, referees, and officials in bribery, corruption, gambling, and match-fixing were the "hidden rules" of China's soccer scene. While the sport became financially independent, endless scandals and unsatisfactory national team performances never ceased to deeply disturb the Chinese society. Although the CFA had allegedly investigated dozens of scandals, most of the investigations were fruitless and

June 12, 1996).

¹²⁰ Fan and Lu, "The Professionalisation and Commercialisation of Football in China (1993-2013)," 1638.

¹²¹ Shaozu Wu, *The History of Sport in the People's Republic of China* (Beijing: Beijing Press, 2002), 367.

¹²² Junsheng Wang, *Chinese Football I Know* (Beijing: Beijing Press, 2002), 115.

¹²³ Ibid.

only one referee was brought to court throughout the fifteen year investigation.¹²⁴ The chaotic situation did not come to an end until 2009, when former President Hu Jintao, Vice President Xi Jinping and State Councilor Liu Yandong each delivered speeches on the Party's determination to crack down on corruption in the soccer market.¹²⁵ Shortly after the central government posted warning signs, the Ministry of Public Security engaged in a thorough and independent investigation on the issue. By 2010, the police had interrogated over a hundred individuals and arrested some of the most powerful ones in the arena, including three high ranking officials of the CFA, Nan Yong, Xie Yalong and Yang Yimin.¹²⁶

Following the unprecedented anti-corruption campaign, the Chinese national team did not improve in international contests as much as the society had expected, but the private sector and sports fans did regain their confidence in the soccer market, because the Party had hinted its devotion to the development of soccer. Since 2010, many prominent businessmen have invested in soccer franchises in China and abroad, and Xi even personally facilitated China Media Capital (CMC)'s acquisition of Manchester

¹²⁴ "Anti-Gambling Holds Hundreds of People Accountable. The Campaign Gains Attention from the Leaders after Ten Years of Preparation," NetEase, November 12, 2009, accessed April 20, 2017, <http://sports.163.com/09/1122/07/50N5G3ET00051C89.html>.

¹²⁵ Xiang Ji, "Liu Yandong: Identify the Problem. Improve Chinese Soccer," Chinanews, October 15, 2009, accessed April 20, 2017, <http://www.chinanews.com/ty/news/2009/10-15/1911147.shtml>; "Xi Jinping's Three Wishes for Chinese Soccer: To Host a World Cup and to Win Its Title," Xinhua, June 06, 2013, accessed April 20, 2017, http://news.xinhuanet.com/sports/2013-06/06/c_124819008.htm; Yunzhongyue, "Why Did Hu Jintao Brought up 'Zhixing Spirit?'" People, October 20, 2009, accessed April 20, 2017, <http://politics.people.com.cn/GB/113795/10223377.html>.

¹²⁶ "Anti-Gambling Holds Hundreds of People Accountable. The Campaign Gains Attention from the Leaders after Ten Years of Preparation."

City.¹²⁷ Moreover, Xi's personal preference has encouraged the ruling elites to highlight soccer in their state developmental plans for the future. Like in the first wave of sports reforms in the 1990s, soccer is, once again, the pioneer of the current reforms, following the announcement of *Document 46*. In 2015, the Central Leading Group for Comprehensively Deepening Reforms (CLGCDR), a newly established Party apparatus led directly by Xi Jinping, announced the *General Reformation and Developmental Plans for Soccer in China*, among other reformative plans that were significant to the national economy.¹²⁸ Subsequently, in the same year, the State Council and its National Development and Reform Commission (NDRC) included a 35-year roadmap for soccer reforms in its *Thirteenth Five-Year Plan*.¹²⁹ The Plan calls for "twenty thousand schools with soccer specialty, the construction of over seventy-thousand soccer fields across the country, and the establishment of a grassroot city league."¹³⁰

The progression of soccer in CCP's China has had many twists and turns. The first experiment of soccer reformation preceded all other sport reforms, and the initial result – that the sport was able to support itself financially for the first time in China's sport history – was very satisfying for the state. However, the old Soviet-style bureaucracy failed to evolve into a competent regulatory body for the newly developed soccer market, and corruption issues haunted the sport for decades. In 2009 and 2010, the

¹²⁷ Tom Phillips, "China's Plan: First Manchester City, Then Hosting and Winning the World Cup," *The Guardian*, December 02, 2015, accessed April 20, 2017, <https://www.theguardian.com/football/2015/dec/02/china-manchester-city-world-cup>.

¹²⁸ Zhenhua Cai, "Cai Zhenhua on the Two-Year Anniversary of the General Plans" (address, Conference at the Two-Year Anniversary of the General Plans, March 21, 2017).

¹²⁹ People's Republic of China, National Development and Reform Commission, *The Soccer Developmental Plan of China in the Middle and Long Term*, <http://www.sdpc.gov.cn/zcfb/zcfbghwb/201604/W020160419364116725683.pdf>.

¹³⁰ Ibid.

Ministry of Public Security eventually engaged in investigations of the soccer scandals in the preceding fifteen years and cleared up the market after a large number of arrests. In Xi's era, the Party leader's enthusiasm for soccer has become an open secret, and the government has, therefore, issued long-term state-level plans to cultivate soccer talents of future generations and disproportionately endorse soccer over any other sport. Xi went as far as appointing Vice Premier Liu Yandong to directly organize and head up the Chinese Soccer Reformation Team, with the participation of other high ranking officials in the sports system.¹³¹

The State: A "Great Leap Forward" of Soccer

The recent reformation of China's soccer market bears more resemblance to the "Great Leap Forward" of the 1960s than to the earlier soccer market reforms in the 1990s. Like the "Great Leap Forward," the current reform is a top-down movement, in which the central government, rather than the sports officials and local authorities who are better informed on the issue, has the discretionary power to determine the budget for the campaign and the results it needs to generate. Also, the scale of the reform has gone far beyond the sports system – led by the Vice Premier of the state, the campaign has involved the Ministry of Education, the Ministry of Finance, the Development and Reform Commission of the State Council, the State Administration of Press (SAP), the General Administration of Sport (GAS), and the Chinese Communist Youth League

¹³¹ Wen Li, "Liu Yandong: I Am the Head of Chins's Soccer Reformation Leadership Team," BBC News, June 22, 2015, accessed April 20, 2017, http://www.bbc.com/zhongwen/simp/china/2015/06/150622_liuyandong_china_ffootball.

(CYL).¹³² With the participation of all these governmental and Party branches, the effort to facilitate changes in a specific sports market has easily escalated into a comprehensive national movement. The market and the society have been politically sensitive, and responded speedily to the signs indicating that the state favors soccer over other sports and even key industries.

The goals of the soccer reformation are performance-based, distinct from those of the general sports industry reform. According to the fifty pieces of policy advice provided by the *General Reformation and Developmental Plans for Soccer in China*, the state will execute a three-step strategy to boost China into a soccer superpower: the short-term goals are to improve the general environment and management of the soccer market; the mid-term goals are to “dramatically increase youth soccer population, to establish top leagues and best teams in Asia, to make the men’s national team an elite team in Asia, and to bring the women’s national team back to a first-class team in the world;” the ultimate goals are “to establish top leagues in the world, to enthusiastically bid for the FIFA Men’s World Cup, and to greatly raise the competitiveness of the men’s national team to a world superpower.”¹³³ While “facilitate[ing] market reforms in the soccer industry” is one of the fifty policy suggestions in the document, the majority of the document does not discuss consumption and the economic aspect of the reform.¹³⁴

Besides, its advice with regards to the business operations of the league, free market

¹³² People's Republic of China, Ministry of Education, *The Opinions of the Ministry of Education and Five Other Departments on Facilitating the Development of Soccer in Schools*, July 27, 2015, accessed April 20, 2017,

http://www.moe.gov.cn/srcsite/A17/moe_938/s3273/201508/t20150811_199309.html.

¹³³ People's Republic of China, State Council, General Office, *General Reformation and Developmental Plans for Soccer in China*, March 8, 2015, Primary Goals, http://www.gov.cn/zhengce/content/2015-03/16/content_9537.htm.

¹³⁴ Ibid, Improving the Funding System.

competition in media rights negotiations, and private investments and sponsorships, merely serves the purpose of “increasing funding.”¹³⁵ By contrast, *Document 46*, which addresses the entire sports industry, entails “facilitate[ing] sports consumption” in the title, and as a key objective of the industry reform.¹³⁶

In addition to the unique goals, the Party also looks to exert greater influence on the development of the sport and divert more resources to the soccer market. First, the previous soccer administration system has been restructured in a way which allows the Party to oversee the sport more closely. According to the *General Reformation and Developmental Plans* (the “*Plans*”), the CFA will become independent from the GAS. Furthermore, the Management Center of Football (MCF), which essentially is the same organization as the CFA, except that it is legally a subsidiary of the GAS, will be disbanded.¹³⁷ The new CFA is an “organizational legal person,” granted “power of self-determination on internal organization, work plans, financial and salary management, human resource management, and international exchange.”¹³⁸ However, the *Plans* also emphasizes the importance of an “increasing leadership role of the Party,” demanding that the CFA should establish a Party Committee and be incorporated into the Party’s talent management system.¹³⁹ Ironically, the Party Committee of the GAS will have jurisdiction over the new CFA Party Committee.¹⁴⁰ More importantly, Politburo member and Vice Premier, Liu Yandong, has been appointed as Head of the Chinese Soccer

¹³⁵ Ibid.

¹³⁶ People's Republic of China, State Council, *Opinions on Accelerating the Development of the Sports Industry and Stimulating Sports Consumption*.

¹³⁷ People's Republic of China, State Council, General Office, *General Reformation and Developmental Plans for Soccer in China*, Restructuring Chinese Football Association.

¹³⁸ Ibid.

¹³⁹ Ibid., Strengthening Party Leadership.

¹⁴⁰ Ibid.

Reformation Team, and Liu now directly supervises Cai Zhenhua, the President of the CFA.¹⁴¹ In essence, the new organizational arrangement bypasses the SGAS leaders and elevates the soccer programs to unprecedented political significance.

Second, government subsidies and favorable policies are pouring into soccer, to the detriment of other sports, which will even affect the life of many individuals. One of the most problematic policies in the *Plans* is “to prioritize soccer reformation and development when arranging funding for sports and education.”¹⁴² In 2015, the government spending on education was 2.7 trillion yuan (USD 391.3 billion), constituting 3.9% of the national GDP, lower by 0.5 percentage point than world average.¹⁴³ Government spending on culture and sports was below 0.5% of the national GDP.¹⁴⁴ By financially promoting soccer development, the government will need to misappropriate resources from the already underfunded, yet vital categories. Moreover, the document suggests reducing the required scores for soccer players to enter colleges, and endorsing elementary and middle schools that have “good foundation and high enthusiasm” in bolstering soccer players.¹⁴⁵ While sports and recreational activities are important to school-aged children, the policy may disproportionately harm the most underprivileged group, who are in dire need for all basic forms of education. It also benefits more well-

¹⁴¹ "China Establishes Soccer Reformation Leadership Team. Liu Yandong Takes the Leadership Role," Sina, April 30, 2015, accessed April 20, 2017, <http://sports.sina.com.cn/c/2015-04-30/11587592616.shtml>.

¹⁴² People's Republic of China, State Council, General Office, *General Reformation and Developmental Plans for Soccer in China*, Increasing Financial Investments

¹⁴³ "2015 National Data," *National Bureau of Statistics of the People's Republic of China*; "Government Expenditure on Education, Total (% of GDP)," World Bank, accessed April 21, 2017, <http://data.worldbank.org/indicator/SE.XPD.TOTL.GD.ZS>.

¹⁴⁴ "2015 National Data," *National Bureau of Statistics of the People's Republic of China*.

¹⁴⁵ People's Republic of China, State Council, General Office, *General Reformation and Developmental Plans for Soccer in China*, Promoting Soccer on Campuses and Facilitating the Development of Education and Soccer.

equipped schools, because not many Chinese schools have had the space and resources to build soccer fields. Land and environmental issues are also concerning. In order to have more people play the sport, the *Plans* calls for the construction of more soccer fields.¹⁴⁶ Article 36 requires the field construction to be a part of city and village planning, and allows the utilization of “isolated lands, lands not in use, public parks, forests, roofs, and civil air defense works.”¹⁴⁷ Article 37 goes further and grants favorable policies in land, tax deduction, and finance to private capital that shows interest in soccer field construction.¹⁴⁸ In recent years, land appropriation had already caused a large number of discontent and land rights protests in rural China. Deforestation has led to climate change and many incidents of landslides.¹⁴⁹ Adding soccer field construction to local authorities’ bucket lists can only escalate the land rights tension and the environmental problems. Moreover, opening up governmental subsidies to this program can only give rise to rent-seeking behavior.

In short, the roadmap that the Party has drawn for soccer development demonstrates that soccer is distinguished from all other sports in its political significance. The state has essentially requested that the local authorities and the bureaucracy put aside their more urgent responsibilities and to devote their resources to soccer reform.

¹⁴⁶ People's Republic of China, State Council, General Office, *General Reformation and Developmental Plans for Soccer in China*, Governmental Subsidies for Soccer Field Construction and Improving Field Operation Capabilities and Profitability.

¹⁴⁷ People's Republic of China, State Council, General Office, *General Reformation and Developmental Plans for Soccer in China*, Governmental Subsidies for Soccer Field Construction.

¹⁴⁸ People's Republic of China, State Council, General Office, *General Reformation and Developmental Plans for Soccer in China*, Improving Field Operation Capabilities and Profitability.

¹⁴⁹ Lubman Stanley, "China's Rubble-Strewn Path to Land Reform," *The Wall Street Journal*, February 23, 2014, accessed April 21, 2017, <https://blogs.wsj.com/chinarealtime/2014/02/07/chinas-rubble-strewn-path-to-land-reform/>; "Deforestation Problems," Greenpeace East Asia, accessed April 20, 2017, <http://www.greenpeace.org/eastasia/campaigns/forests/problems/>.

Although Document 46 is theoretically an overarching reformation guideline for all sports markets, the soccer reform is unique, with regards to objectives and developmental approaches. Politically, the sport is directly under the jurisdiction of the Politburo, the State Council, and six state ministries and party apparatuses, which are all held accountable for the success of the reform; economically, soccer is entitled to more government subsidies and policy support than any other sport.

The Investors: A Spending Race

Acknowledging the importance of the political environment on the economy, Chinese businessmen have reacted acutely to the “Great Leap Forward” in soccer. The central government indicated the forthcoming changes in the arena five years before *Document 46* was released, and it has made clear what the political implications would be. On October 12, 2009, former Vice President Xi Jinping asserted, “Since China can win gold medals in other sports, we are also determined to improve our performance on soccer,” when speaking with the Bayer Group on a visit to Germany.¹⁵⁰ Two days later, Politburo member and Former State Councilor Liu Yandong delivered a speech at the annual national soccer conference, demonstrating that the three generations of Party leadership all sincerely cared about the development of soccer, and that it was urgent to find feasible approaches to soccer reformation and improvement.¹⁵¹ On October 16, before the opening of the Eleventh National Games, former President Hu Jintao, again,

¹⁵⁰ Lingyun Zhang and Zi Mo, “Xi Jinping Visits a German Pharmaceutical Company and Spoke about Chinese Soccer with High Spirit,” IFeng, October 13, 2009, accessed April 20, 2017, http://news.ifeng.com/mainland/special/xijinpingouzhouwuguo/news/detail_2009_10/13/690243_0.shtml.

¹⁵¹ Xiang Ji, “Liu Yandong: Identify the Problem. Improve Chinese Soccer.”

addressed the issue on a meeting with legendary athletes and coaches, who have contributed to sports development since the foundation of the PRC.¹⁵² Throughout the first fifteen years of history of the Chinese professional leagues, none of the top Party leaders had addressed the issue so publicly and intensely. Shortly after the speeches, the Ministry of Public Security was invited into the scene, and the CFA officials, who had been responsible for the previous investigations, were not allowed to participate. The gesture made by the ruling elites was clear: the CCP was then determined, by all means, to uproot the corrupt soccer system in its entirety.



The investors responded immediately to the three speeches, which marked the beginning of China's anti-corruption campaign. In March 2010, real estate oligarch Xu Jiayin acquired the municipal soccer team, which had just descended into Pro B, for a

¹⁵² Yong Wang and Dongxing Yue, "Rong Zhixing: General Secretary Hu Said Chinese Soccer Needed 'Zhixing Spirit,'" Xinhua, October 19, 2009, accessed April 20, 2017, http://news.xinhuanet.com/sports/2009-10/19/content_12269300.htm.

hundred million yuan (USD 14 million).¹⁵³ Xu renamed the franchise after his own company, the Evergrande Group, and relentlessly threw money at China's best soccer players to recruit them to his team.¹⁵⁴ While Xu's decision was looked at with wide skepticism, he soon proved himself to be perceptive. In 2014, Xu was able to sell fifty percent of the club to Alibaba's founder Ma Yun at 1.2 billion yuan (USD 194 million), and the franchise became the first soccer club in Asia to file an IPO in 2015.¹⁵⁵ Unlike Xu and other soccer team owners, investors in most other sports were much more uncertain about the prospect of the sports reform until 2014.

Chinese soccer investors are also more financially capable and ambitious than their counterparts in other sports. According to Bloomberg, Chinese buyers have spent over USD 2 billion in European soccer teams since 2015, and targets of acquisitions include some of the most prestigious franchises, such as AC Milan, Inter Milan, Atletico Madrid, and the Manchester City.¹⁵⁶ Some of China's most influential oligarchs, such as Alibaba Group's Ma Yun (Guangzhou Evergrande Taobao), Wanda Group's Wang Jianlin (Atletico Madrid), and Suning Group's Zhang Jindong (Inter Milan), are all active

¹⁵³ Hang Li, "Evergrande Buys out Guangzhou Soccer Team for One Hundred Million. The Federation Is Still in Charge of Administration," Sohu, March 02, 2010, accessed April 20, 2017, <http://sports.sohu.com/20100302/n270523462.shtml>.

¹⁵⁴ Ibid.

¹⁵⁵ "Alibaba Buys into Soccer Team After Billionaires' Drinks," Bloomberg.com, June 05, 2014, accessed April 20, 2017, <https://www.bloomberg.com/news/articles/2014-06-05/evergrande-rises-on-alibaba-soccer-stake-report-hong-kong-mover>; Elzio Barreto, Clare Jim, and Sue-Lin Wong, "Alibaba, Evergrande-owned Soccer Club Files for China IPO in Asian First," Reuters, July 02, 2015, accessed April 20, 2017, <http://www.reuters.com/article/us-evergrande-alibaba-ipo-idUSKCN0PC0G120150702>.

¹⁵⁶ Lisa Pham, "China Is Buying Up European Soccer - and Some Fans Aren't Happy," Bloomberg.com, October 06, 2016, accessed April 20, 2017, <https://www.bloomberg.com/news/articles/2016-10-06/china-soccer-spree-sours-in-france-as-pla-linked-buyer-struggles>.

players in the soccer spending race. Ma, Wang, Zhang, and Xu are all listed within top 10 of Hurun's 2016 wealthiest people in China rankings.¹⁵⁷ Comparatively, only one CBA team owner, Sun Guangxin of the Xinjiang Guanghui Club, is ranked within top 100.¹⁵⁸

The large wave of wealthy newcomers into the market has led to mixed results. One of the most immediate is the increase in standards – the Chinese Super League has easily become one of the highest paid leagues in the world, and money has attracted world-class players and coaches. Data compiled by *the Telegraph* implies that in the one year beginning from January 2016, “Jackson Martinez, Ramires, Oscar and Alex Teixeira have all moved to the Chinese Super League (CSL) for a combined total of £150million.”¹⁵⁹ Prestigious coaches, such as Luiz Felipe Scolari, Sven-Goran Eriksson and Marcello Lippi, have all had coaching experience with CSL teams in recent years. The wealth has undoubtedly brought up the level of the CSL, but not for the national team. Guangzhou Evergrande has won the championship of the AFC Champions League twice since the 2009 speeches, and the last and only time when another Chinese team had claimed the title was the Liaoning provincial team in 1990.

While the value of the league has been increasing since the anti-corruption campaign, there has been a trend of overspending since the announcement of *Document 46* and the *General Reformation and Developmental Plans for Soccer*. In 2016 and 2017, CSL teams' total expenditures on summer and winter transfers even exceeded the market

¹⁵⁷ "The Richest People in China 2016," Hurun Report, October 13, 2016, accessed April 20, 2017, <http://www.hurun.net/CN/HuList.aspx>.

¹⁵⁸ Ibid.

¹⁵⁹ Ben Bloom, "Why Are so Many Good Footballers Moving to China?," *The Telegraph*, January 24, 2017, accessed April 20, 2017, <http://www.telegraph.co.uk/football/2017/01/24/many-good-footballers-moving-china/>.

value of all players in the entire league. The barrier to entry has become so high that only oligarchs and large SOEs can afford to invest in the CSL. Moreover, SOEs' involvement in this spending race has resulted in losses of state assets. As of April 2017, Beijing Zhonghe Guo'an, Shanghai Greenland Shenhua, Shanghai SIPG, Tianjin TEDA, Shandong Luneng, and Changchun Yatai are owned by the SOEs and sponsored by the local governments. While some of the SOE-sponsored clubs spend more deliberately, others are only concerned with the championship and the prestige it can give to the SOE leaders. In July 2016, Shandong Luneng acquired Graziano Pelle with £15.25 million transfer fees and £260,000 weekly salaries, making the 31-year old forward one of the ten highest soccer players in the world.¹⁶⁰ However, according to *Transfermarkt's* analysis, Pelle's market value was merely £8 million.¹⁶¹ Similarly, Shanghai SIPG has acquired Brazilian guard Hulk at an Asian record of £46.1 million, and Shanghai Greenland SIPG have acquired Demba Ba at a "possible record transfer fee."¹⁶² Foreign agents and players have been aware of the Chinese clubs' willingness to spend, and the bold price tags are a result of this reputation. Therefore, a large share of the fees and salaries that these state-

¹⁶⁰ Nick Miller, "Graziano Pellè and Glory v Money: Would You Turn down £34m in His Position?," *The Guardian*, July 13, 2016, accessed April 20, 2017, <https://www.theguardian.com/football/blog/2016/jul/13/graziano-pelle-china-34m-chinese-super-league-southampton>; Furui Guo, "Pelle's Transfer Fee Confirmed! The Italian National Team Player Joined Luneng for £15.25 Million," *IFeng*, July 12, 2016, accessed April 20, 2017, http://sports.ifeng.com/a/20160712/49338823_0.shtml.

¹⁶¹ *Transfermarkt*, accessed April 20, 2017, <http://www.transfermarkt.com/schnellsuche/ergebnis/schnellsuche?query=graziano%2Bpelle&x=0&y=0>.

¹⁶² "Hulk Signs for Shanghai SIPG for Asian Record £46.1m - BBC Sport," *BBC News*, June 30, 2016, accessed April 20, 2017, <http://www.bbc.com/sport/football/36650578>. Sky Sports, "Demba Ba Has Joined Chinese Club Shanghai Shenhua from Besiktas," *Sky Sports*, June 28, 2015, accessed April 20, 2017, <http://www.skysports.com/football/news/12691/9897267/demba-ba-has-joined-chinese-club-shanghai-shenhua-from-besiktas>.

sponsored clubs have paid using the controlling SOEs' revenue benefits the agents, the players, and their original clubs, at the cost of the SOEs and taxpayers. The SOE leaders and the local authorities are the beneficiaries of these seemingly irrational purchases, because a CSL championship or the AFC qualification can yield them prestige and promotion opportunities. However, there exists no regulations to prevent them from overspending on player acquisitions.

Just as match-fixing and corruption spread along with the last soccer market boom in the 2000s, illegitimate capital outflow is finding loopholes in the current system. Since 2012, when the state eased its currency restrictions on direct foreign investments and current account payments, capital outflows have been increasing every year, and the central bank has been striving to stabilize the currency by imposing a currency exchange cap on individuals and companies.¹⁶³ In this situation, soccer becomes a natural channel through which businesses can flush their capital abroad, despite the state's foreign currency quota. At the China Development Forum (CDF), Vice President of the People's Bank of China and Head of the State Administration of Foreign Exchange, Pan Gongsheng, specifically warned soccer clubs and investors about their capital transfer behaviors.¹⁶⁴ While admitting some acquisitions have raised the standards of soccer playing in China and the rest of the world, Pan points out that "Many companies already

¹⁶³ "Easing Regulations on Capital: Bans Lifted on Direct Overseas Investment," NetEase, November 22, 2012, accessed April 20, 2017, <http://money.163.com/12/1122/02/8GSOMMSI00253B0H.html>; Christopher Balding, "Why China Can't Stop Capital Outflows," Bloomberg.com, December 05, 2016, accessed April 20, 2017, <https://www.bloomberg.com/view/articles/2016-12-06/why-china-can-t-stop-capital-outflows>.

¹⁶⁴ "Capital Flows Across the Border: Challenge and Response" (speech, China Development Forum 2017, Diaoyutai State Guesthouse, Beijing, March 20, 2017), video.caixin.com/2017-03-20/101067064.html.

had a high debt ratio in China, but they were still borrowing to acquire [soccer clubs and players overseas]; some even fabricate evidence of investments abroad, in order to transfer their assets overseas.”¹⁶⁵ In addition, the tremendous margin between marquee players’ market value and the nominal transfer fees have created opportunities for money laundering, particularly for club owners who have close relationships with the players’ agents.

Moreover, the intense championship competition within the top-tier league has disincentivized the clubs to bolster their young talent. According to *Chongqing Morning Post*, only 9% of the CSL clubs spend more than ten million yuan (USD 1.45 million) on youth development, and only four clubs have the four-tier reserve system as required.¹⁶⁶ The majority of the teams, meanwhile, devote less than four million yuan (USD 581,000) to their youth programs.¹⁶⁷ The fact that most CSL teams spend less on their player development than on the transfer fee of any one marquee player reflects that most investors perceive soccer as a short-term investment option. While the state can supplement the current club programs with its nationwide soccer promotional campaigns in schools and universities, it cannot immediately acquire sufficient coaching professionals to bolster the youth soccer players and improve the quality of grassroots soccer competitions.

Last but not least, the state’s favoritism toward soccer may discourage investments in other sports markets. Before acquiring the Guangzhou soccer team, Xu

¹⁶⁵ Ibid.

¹⁶⁶ Yan He and Hao Tang, "Only 9% of the CSL Teams Spends Over 10 Million on the Youth," Sina, January 04, 2016, accessed April 20, 2016, <http://sports.sina.com.cn/china/j/2016-01-04/doc-ifyxncyar6270324.shtml>.

¹⁶⁷ Ibid.

Jiayin was originally in women's volleyball, the only team ball sport in which China has won Olympic gold medals. In 2009, Xu founded a Guangdong Evergrande Women's Volleyball team, acquiring many Chinese national team players and marquee foreign players.¹⁶⁸ This team was able to advance to the Pro A Volleyball League in its first year, and won a runner-up and a championship in the following two seasons. However, with the success of the Evergrande soccer team, Xu no longer needed the women's volleyball for advertising purposes, and eventually withdrew his investments from it.¹⁶⁹ By 2014, the Evergrande Volleyball Club had merged with the Guangdong provincial women's volleyball team, and most marquee players, whose salaries Xu would no longer be willing to pay, returned to their original teams after an unsuccessful season.¹⁷⁰ Women's volleyball is only one of the many sports in China that would have had a market potential once professionalized, and *Document 46* should have created the best window for the reforms to take place. However, the state-level movement of soccer development has delayed this opportunity for other professional leagues and players. While men's soccer currently underperforms among all China's elite sports teams, the favorable policies and the following gold rush in the market may eventually harm other sports, in which the supreme leader has not indicated an interest.

Owing to China's political system, China's private sector is more sensitive to the CCP's gestures than most other corporate players in the world. Upon the message of the state's resolution to develop soccer, Chinese investors acutely sensed the opportunity and

¹⁶⁸ Kun Ma, "Where Did Evergrande Volleyball Go? Lang Ping Appointed as Consultant. Players Transferred to Provincial Teams," Tencent, May 9, 2014, accessed April 20, 2017, <http://sports.qq.com/a/20140509/020958.htm>.

¹⁶⁹ Ibid.

¹⁷⁰ Ibid.

began massive investments in the soccer markets in both China and abroad. While the increasing cash inflows have boosted the competitiveness of the CSL, it has also raised concerns over loss of state assets, capital outflows, under-funded youth development system, and uneven development across sports. These rash decisions by the private sector have shown that many investors treat soccer teams as a short-term investments in their portfolios, and this short-sightedness may create greater problems for the sport in the long run.

Trends

Unlike how the *Document 46* has dictated, most reformative measures that the announced soccer reformation plan proposes focus on enhancing the performance of the Chinese national teams, particularly the men's team. The performance-based nature of the reform illuminates that the state prioritizes Xi's "three wishes" about soccer over growth and financial independence of the sport. However, other actors may have different goals in mind. Most private firms who have recently tapped into the soccer market either regards the branding opportunity more valuable than its associated costs, or craves for favorable policies from the local governments.

Since 1949, sports have had a high political significance to the Chinese ruling elites, since the medal-winning strategy has helped the state demonstrate its superiority in the world. However, the recent soccer reform marks a departure from this enduring soft power strategy and emphasizes the cult of personality and diplomatic priorities. Since 2008, the state media has publicized Xi's interest in soccer on many occasions. Prior to the 2008 Olympic Games, Xi visited the venue of the Olympic soccer games and showed

off his soccer skills on the Olympic soccer field.¹⁷¹ In 2011, he iterated in a meeting with the leader of Korea Democratic Party, Sohn Hak-kyu, that “China entering the World Cup, hosting a World Cup, and winning a World Cup” are my three wishes.”¹⁷² Since Xi was inaugurated as the President of PRC in 2012, he has frequently mentioned his enthusiasm for soccer in his visits abroad. According to *People’s Daily*, Xi expressed his admiration of soccer star David Beckham in his visit to the U.S, played soccer in a national visit to Ireland, and wished “both China and Indonesia be able to play in the World Cup in the near future” before a visit to Indonesia.¹⁷³ Xi also spoke about soccer in an address with Congress of the Union of Mexico, a conversation with Dutch goalkeeper Edwin van der Sar on the state banquet of Holland, and a meeting with Mauricio Macri, former mayor of Buenos Aires.¹⁷⁴

These remarks that Xi has made in public are, in some ways, reminiscent of the “ping pong diplomacy” that China had facilitated in the 1970s. In both scenarios, the government takes advantage of the universality of sports to strengthen diplomatic ties. However, while the “ping pong diplomacy” set the foundation of the bilateral relations of China and the U.S, the soccer diplomacy more often embellishes Xi’s personality.¹⁷⁵ By

¹⁷¹ "Xi Jinping Walks Throught Qinhuangdao and Tianjin's Venues for the Beijing Olympic Games," Xinhua, July 15, 2008, accessed April 20, 2017, http://news.xinhuanet.com/politics/2008-07/15/content_8552844.htm.

¹⁷² "Xi Jinping's Three Wishes for Chinese Soccer: To Host a World Cup and to Win Its Title."

¹⁷³ "Xi Jinping and Soccer," *People*, March 18, 2015, accessed April 20, 2017, <http://cpc.people.com.cn/xuexi/n/2015/0318/c385474-26709678.html>.

¹⁷⁴ *Ibid*.

¹⁷⁵ Steven V. Roberts, "Ping-pong Diplomacy: The Secret History Behind the Game That Changed the World' by Nicholas Griffin," *The Washington Post*, January 24, 2014, accessed April 20, 2017, https://www.washingtonpost.com/opinions/ping-pong-diplomacy-the-secret-history-behind-the-game-that-changed-the-world-by-nicholas-griffin/2014/01/24/03e10536-794f-11e3-af7f-13bf0e9965f6_story.html?utm_term=.6d3ac57cd6e5.

frequently alleging he is a soccer fan and publicizing his experience as an amateur soccer player, the propaganda has made the state's top leader more relatable to the masses. Moreover, Xi has address issues with soccer in a more personable way since he became the President. When Xi served as the Vice President of the PRC, he encouraged the women's national team to "win glory for the country, the nation, and for your life."¹⁷⁶ In his national visit to Germany, Xi said that "China has made a will" to bolster its soccer performance.¹⁷⁷ However, after 2012, Xi's comments have had more individualism. When visiting a group of young players in Germany, Xi encouraged them, saying "I have high hopes of you. I believe that your generation will produce great soccer players. This is my wish."¹⁷⁸ When accepting a Boca Juniors' jersey from former Mayor of Buenos Aires, Xi exhibits his sense of humor, asking "How much is the transfer fee?"¹⁷⁹ The personality cult, the portrayal of President Xi as a personable leader may increase the popularity of him domestically and mitigate the hostile international environment to the CCP regime.

Besides propaganda purposes, the specific policies of the soccer reformation clearly indicate the state's intention to fulfill Xi's "three wishes" of Chinese soccer. Both the *General Reformation and Developmental Plans for Soccer in China* and the *Chinese Soccer Developmental Plans in the Middle and Long Term in the Thirteenth Five Year*

¹⁷⁶ "Xi Jinping and Soccer."

¹⁷⁷ "Xi Jinping: Make up Our Minds to Improve the Standard of Soccer," NetEase, October 16, 2009, accessed April 20, 2017, <http://news.163.com/09/1016/02/5LNB7UV8000120GR.html>.

¹⁷⁸ "Xi Jinping Visits Youth Players: I Hope You Can Become International Soccer Stars," Xinhua, March 30, 2014, accessed April 20, 2017, http://news.xinhuanet.com/world/2014-03/30/c_1110008733.htm.

¹⁷⁹ Wei Zeng, "Why Did Xi Jinping Receive Two No.10 Jerseys in Argentina," People, July 28, 2014, accessed April 20, 2017, <http://politics.people.com.cn/n/2014/0728/c1001-25356116.html>.

Plan make it clear that the long-term goal of the policy change is to “build China into a soccer superpower.”¹⁸⁰ Moreover, among the fifty proposals in the *Reformation and Developmental Plans*, only three touch on the operation of professional leagues and clubs, which currently are the major component of the Chinese soccer market. Meanwhile, six deliberate on the transformation of the CFA, seven on the expansion of soccer competitions and international exchanges, twelve on the promotion of soccer and sourcing of soccer talents in schools, universities, and the society, and five on the improvement of the national teams.¹⁸¹ The *Reformation and Developmental Plans* also strongly calls for policy and financial support in ten of its proposals.¹⁸² Rather than encouraging the development of the professional leagues and therefore boosting growth from the market, these measures aim to foster a future soccer superpower, based on better regulation, more quality competition, larger talent pool, and greater support toward the sport from the state and the society. Although some of these reforms may drive growth in the market indeed, it will only be a bonus of the state’s initiative. Ultimately, these documents imply that the strongest incentive for the state to transform the sport is to meet Xi’s expectations of Chinese soccer, in addition to embellish the top leader’s image in both China and abroad.

While the state is driven by political objectives, the private sector that has been invested fervently in the market recently will only contribute to the development funds for substantial benefits. Wanda Group’s Wang Jianlin, also China’s wealthiest man,

¹⁸⁰ People's Republic of China, State Council, General Office, *General Reformation and Developmental Plans for Soccer in China*, Long-Term Goals

¹⁸¹ People's Republic of China, State Council, General Office, *General Reformation and Developmental Plans for Soccer in China*.

¹⁸² Ibid.

entered the soccer market twice for different purposes. In the early 1990s, Wang signed a sponsorship contract with the sports administration of Dalian to sponsor the municipal soccer team, in exchange for the right to establish a building near the city's stadium.¹⁸³ Although his project was rejected by the municipal government, Wang sensed that the city and its government had love for soccer, and he decided to execute the sponsorship contract and soon became its major investor.¹⁸⁴ The Dalian Wanda Club did become the trademark of the city, and Wang, who had only owned a small real estate company previously, was able to obtain tremendous benefits from this investment – the government offered him more favorable policy for his real estate business, and he was able to establish ties with the political elites, including the former Sports Minister Wu Shaozu and former Dalian's Mayor Bo Xilai.¹⁸⁵ However, when Wang believed that Bo had intervened in the operation of his club, and that the Chinese soccer market had deteriorated intensely, he quitted soccer in the late 1990s.¹⁸⁶

After the anti-corruption campaign in 2009, Wang, once again, realized the potential of the soccer market, and entered with even greater vision. In 2011, Wanda signed a partnership deal with the CFA, “comprehensively endorsing” the Chinese soccer resurrection plans.¹⁸⁷ In an interview, Wang declared that “the reason why Wanda would sponsor the cause of China's soccer development is firstly the indication from the state,

¹⁸³ Minmin Huang et al., "Wang Jianlin's Jungle of Politics and Business," Blogweekly.com, December 5, 2013, accessed April 20, 2017, http://www.blogweekly.com.cn/2013/cover_1205/99.html.

¹⁸⁴ Ibid.

¹⁸⁵ Ibid.

¹⁸⁶ Ibid.

¹⁸⁷ "The Wanda Group Has Signed with the CFA. Five Hundred Million Investments in Three Years Helps Rejuvenates Chinese Soccer," Sina, July 03, 2011, accessed April 20, 2017, <http://sports.sina.com.cn/c/2011-07-03/17475642454.shtml>.

the society, and the central leaders, and secondly my own passion for the sport.”¹⁸⁸ Loyal to the state, Wang also actively seeks policy support for his extensive business empire. In the keynote speech of the Caixin Summit in 2016, Wang claimed that the sports industry needs to “integrate with business, media, tourism, and urban development,” which coincides with Wanda’s businesses in sporting event operation, Internet, hotel and resort chains, and real estate.¹⁸⁹ Wang also urged the state to build more sports infrastructure, arguing “if we cannot construct enough soccer fields, we cannot develop soccer.”¹⁹⁰ With Wang’s experience in sports, real estate, and entertainment complex, Wanda can take over soccer field construction projects stressed by the state in its various documents, as long as the local governments approve these projects and grant him the land he requests.¹⁹¹

Indeed, other private firms have already been facilitating the soccer construction business. In January 2017, Hebei CFLD, the investor of the Hebei CFLD FC and a real estate firm rooted in the Hebei Province, announced a partnership deal with the Hebei Football Association (HFA).¹⁹² The deal not only allows the CFLD to promote soccer in local schools, but also grants it a piece of land in Gu’an, on which CFLD will build “a

¹⁸⁸ Ibid.

¹⁸⁹ Jianlin Wang, "Keynote Speech" (speech, The Seventh Annual Caixin Summit and Second Chinese Sports Industry Forum, Beijing, December 4, 2016), <http://mt.sohu.com/20161204/n474901655.shtml>.

¹⁹⁰ Ibid.

¹⁹¹ Wang announced his plan to build 15 “Wanda Cities” in the coming years and said the existence of these Wanda Cities would prevent the Shanghai Disney from profiting for the next 15 to 20 years. "China's Richest Man Building "Wanda City" to Challenge the Disneyland," BBC News, May 28, 2016, accessed April 20, 2017, http://www.bbc.com/zhongwen/simp/china/2016/05/160528_wanda_disney_rivalry.

¹⁹² Yong Chen, "CFLD Assists Youth Development in Three Ways: Japanese Team + Five-Tier Reserve + Overall Strategy," Sina, January 16, 2017, accessed April 20, 2017, <http://sports.sina.com.cn/china/j/2017-01-16/doc-ifxznip1294792.shtml>.

large soccer complex which includes bases for the professional team and its reserves.”¹⁹³ Similarly, the Guangzhou municipal government has decided to invest in a world-class stadium to host the Guangzhou Evergrande, and yielded business operation rights of the publicly funded Yuexiushan Stadium to the city’s other club, Guangzhou R&F.¹⁹⁴ In addition, the government was willing to “assist R&F in transforming the University Town’s Sports Center to R&F’s training base, and to coordinate with R&F in establishing a municipal youth training center.”¹⁹⁵ Since the CFLD, Evergrande, and R&F are all real estate firms, they have benefited from the reform by gathering more land, which has become extremely scarce and expensive in today’s China.

Compared to the basketball market, in which the bureaucracy has been impeding the reform for years, officials in the soccer system have had much less power, but their self-interest are more aligned with those of the state – that is, to bolster the performance of the national team. The state’s anti-corruption campaign between 2009 and 2010 arrested some of the most powerful individuals in the sport, including three high rank officials of the CFA.¹⁹⁶ With the removal of Nan Yong, Xie Yalong, and Yang Yimin, there had emerged a power vacuum in the administration, and their successors, Wei Di and Cai Zhenhua, never gained as much influence as the three. Since Cai was selected as the new CFA President in 2014, he has enunciated his determination to improve the national team’s performance on different occasions. In March 2014, when discussing Xi

¹⁹³ Ibid.

¹⁹⁴ "Evergrande's New Stadium Entails a Long-Term Plan. Guangzhou Will Bid for the World Cup in Ten Years," Sina, May 14, 2015, accessed April 20, 2015, <http://sports.sina.com.cn/j/2015-05-14/12237607111.shtml>.

¹⁹⁵ Ibid.

¹⁹⁶ "Anti-Gambling Holds Hundreds of People Accountable. The Campaign Gains Attention from the Leaders after Ten Years of Preparation."

Jinping's expectations on soccer, Cai asserted that "we have formulated a ten-year plan for the CFA, and will strive to rebuild China into a top Asian team within ten years."¹⁹⁷ Six months later, after a loss of the national U23 team in the Asian Cup, Cai angrily told the reporters that "Chinese soccer cannot develop with slogans – it has a long way to go. Please stay patient with us. Just wait and see. There will be many reforms."¹⁹⁸ In January 2017, two years after the reform plans were announced, Cai took a step back from his previous statements, arguing that performance should not be the only standard to evaluate the soccer reform.¹⁹⁹ Despite this claim, he nevertheless justified for the national team's losses by filling in more performance-based data. According to Cai, the FIFA ranking of the men's national team had improved, and the women's team has, once again, become a Top 8 team in the world.²⁰⁰

In the current soccer market reform, President Xi himself and the state are the dominant actors, and they treat the reform as not only a way to fulfill Xi's wishes, but a cult of personality of the leader both domestically and internationally. The private investors, while having misaligned goals with the state, ride with the reform by taking advantage of the soccer-related policy support from the local governments. The current soccer bureaucracy has only been formed recently, because the anti-corruption campaign had eliminated the old elites in this market, and they have the same set of goals with the

¹⁹⁷ "Cai Zhenhua: China Strives to Return to a Top Asian Team in Ten Years," Sohu, March 29, 2014, accessed April 20, 2017, <http://news.sohu.com/20140329/n397428391.shtml>.

¹⁹⁸ "Cai Zhenhua: China Has Not Performed Well for Years. Just Wait and See. There Will Be Reforms.," NetEase, September 26, 2014, accessed April 20, 2017, <http://sports.163.com/14/0926/07/A726486O00051C8M.html>.

¹⁹⁹ Qiaosu Zhang, "Cai Zhenhua: Performance of the National Team Is Not the Only Standard Evaluating the Development and Reformation in Soccer," Xinhua, January 17, 2017, accessed April 20, 2017, http://news.xinhuanet.com/sports/2017-01/17/c_1120329176.htm.

²⁰⁰ Ibid.

state. Generally speaking, the soccer reform entails less self-contradiction than that of the basketball market, because there exist less number of actors in the market, and the state monopolizes power in this field.

Conclusion

Soccer reform has taken a distinct path from basketball and many other sports. With the endorsement of the state, the sport has enjoyed considerable political and financial support from the public sector. The reformative policies prioritize the national team's performance and impose tight political control over the sport. President Xi Jinping has played a significant role in this policy change, because the designated policies reflect his personal preference, and he has devoted himself to guiding the direction of this reform. The private investors have played a minor role, but nevertheless benefited from the reform as they secured land, funds, and ties from respective local governments. In general, the soccer reformation has been more consistent than the basketball reform, because there has not been as much conflicting interest. However, the benefits of this reform will be limited to a smaller number of political and business elites, and the current growth in the market may vanish quickly.

Chapter V: Discussion

In the two case studies, the Chinese central state has a greater impact on the soccer reform, but it serves as the key actor who has jumpstarted both reforms. In the basketball market, the role of the state, though crucial, is secondary to the private firms: investors had deliberated on and pushed for the reformation for years, but did not manage to penetrate the bureaucracy until the state removed the barrier for them. By appointing Yao Ming to succeed Xin Lancheng, the state conveyed the message that it would take sides with the market forces, rather than continue to rely on the state apparatuses and reinforce the outdated system. Endorsed by the central state, the investors of the basketball market will be able to lead the reform, and eventually deregulate and privatize the sport. By contrast, the government has been the dominant force in the soccer reform, since it initiated the anti-corruption campaign, organized a well-staffed unit to lead the transition, and enforced its reformative policies on both federal and local levels. The investors are interested in the market, only because they capture the state's determination, and comprehend the importance of it to their business environment. Ultimately, the state's actions will most likely reverse the past reforms in the soccer market. The sport will see more centralization and enjoy more policy favors in the coming years.

The discrepancy between the state's actions in the two markets derives from the different goals the CCP has for the two sports. The ruling elites have allowed the private sector to transform professional basketball as they see fit, because they have realized that defending the bureaucrats and the old system will only further alienate the public. As early as 2009 the sarcastic couplet – “Thanks to God, thanks to Earth, and thanks to Yalong (*xietian xiedi Xie Yalong*); faith in deity, faith in ghost, and faith in Lancheng

(*xinshen xingui Xin Lancheng*)” – had become popular among Chinese netizens.²⁰¹ While the verses target at the former heads of the soccer and basketball administration, their popularity suggests the critical attitude of Chinese society toward the entire sports bureaucracy. As Xie Yalong and his colleagues at the CFA had already been removed after the anti-corruption campaign in 2009, the state, in the current reform, moved on to weaken the basketball federation and bolster the private firms, to which the federation had been opposed. Meanwhile, the soccer reform bears the tasks to please President Xi Jinping and to provide justification for his leadership. By imposing those favorable policies to soccer, the CCP can also strengthen its regime. President Xi, a passionate soccer fan, has publicized his wishes for the Chinese national team, and the reformative policies are tailored to his performance-based vision for the sport. The political aspect of the soccer reform is also important. Xi’s passion is translated into a personality cult and a diplomatic message for both domestic and international audience.

Notwithstanding the diverging paths, the motivation for the state to facilitate both reforms has been consistent. Since the “reform and opening up” policy, the CCP has been able to lie on China’s persistent economic growth, which justifies the “Socialism with Chinese characteristics” that it embraces. However, as the national economy slows down in the past few years, it is vital for the CCP to either reinvigorate the economy, or identify a new source of legitimacy. The state’s decision to initiate reforms in the sports sector incorporates both elements. First, *Document 46* sets a specific bar for the sports economy to reach – that is, the market shall reach 5 trillion yuan by 2025, even though the current

²⁰¹ In 2009, Xie Yalong was the head of the Chinese Football Association (CFA) and the Management Center of Football (MCF), and Xin Lancheng was the head of the Chinese Basketball Association (CBA) and Management Center of Basketball (MCB).

size of the industry is merely 386.4 billion yuan.²⁰² Unrealistic as this expectation seems, the state has determined to reshape sport, from a political tool that demonstrates China's superiority, into an economic sector that can drive sustainable growth. The rationale behind the expectation of the state is the rapid growth of China's service industry, and the general belief is that service industry growth is the last resort of China's stagnating economy.²⁰³ According to the *Financial Times*, "a broad category that includes healthcare, education, entertainment and culture, science and research, business services and utilities – fully 20 per cent of the economy," now sees the fastest growth among all categories.²⁰⁴ Sports not only falls into this category, but it is one of the only sub-sectors that have not been fully deregulated, yet having the capacity. Moreover, boosting the sports industry does not lead to any negative moral implications. While China has opened up to private schools and health providers in recent years, it is not sensible to expect long-term growth from these sectors, because public goods cannot be valued solely by economic terms.

Second, the CCP can gain popularity by accommodating to the new social norms, which interpret sports differently. As discussed in Chapter I, the market-oriented Western sports model has, over the years, increasingly resonated among the Chinese masses. The totalitarian elite sports system, on the contrary, has gradually lost its appeal. With the unprecedented economic success over the past thirty years, the Chinese society no longer see the need to demonstrate the nation's strength internationally, but now demand more

²⁰² People's Republic of China, State Council, *Opinions on Accelerating the Development of the Sports Industry and Promoting Sports Consumption*.

²⁰³ Mark Magnier, "As Growth Slows, China Highlights Transition from Manufacturing to Service," *The Wall Street Journal*, January 19, 2016, accessed April 20, 2017, <https://www.wsj.com/articles/as-growth-slows-china-highlights-transition-from-manufacturing-to-service-1453221751>.

²⁰⁴ Gabriel Widau, "China Services Sector Key to Growth," *Financial Times*, December 6, 2015, accessed April 20, 2017, <https://www.ft.com/content/0f6f0018-9817-11e5-bdda-9f13f99fa654>.

modernization within the political system. While discussions on democracy and criticisms against the government are still systematically repressed, the CCP now tends to allow skepticisms toward the state's bureaucracy. Sometimes, it even plays scapegoating if needed. In fact, as Professor Martin King Whyte points out, "for China's rulers today, as in the past, bureaucracy is often seen as 'a problem.'"²⁰⁵ In the sports sector, specifically, the fans and netizens are more likely to blame the direct leader of an administration, for the failure and scandals of this sport, rather than hold the regime's ruling elites accountable. As a result, the unpleasant connotations of bureaucracy does not undermine the regime, and the Party is willing to crack down on its institutions, in order to enhance its image. In practice, directors of the management centers of sports, particularly the Management Center of Football (MCF) are frequently removed upon failures to meet the public's expectations of the respective sport. However, members of the central government, such as officials in the General Administration of Sports (GAS), hardly take responsibilities for China's overall unsatisfactory performance and failure to facilitate desirable reforms.²⁰⁶

Third, the wide media coverage on President Xi's passion for sports, particularly for soccer, is engineered. Unlike his predecessor Hu Jintao, Xi frequently exhibits his vivid personality and even his private life to the public. It suggests a more individual-based propaganda approach, which aims to justify the leadership of Xi just as much, if

²⁰⁵ Whyte King Martin, "Who Hates Bureaucracy? A Chinese Puzzle," November 1986, 1, <https://deepblue.lib.umich.edu/bitstream/handle/2027.42/51105/337.pdf?sequence=1>.

²⁰⁶ Xiao Tian, former Deputy Head of the General Administration of Sport and official on China's Olympic Committee, was removed due to corruption charges, from Ben Blanchard, "China Warns Again on Sports Corruption, Lust for Gold," Reuters, April 07, 2016, accessed April 21, 2017, <http://uk.reuters.com/article/uk-china-corruption-sports-idUKKCN0X505W>.

not more, than that of the CCP.²⁰⁷ Xi's public appearances on soccer fields and unpretentious remarks on issues concerning Chinese soccer demonstrate his good health and likeable character. By publicizing Xi's soccer-related activities, the CCP can appeal to the millions of sports fans in the country. This personality cult can only be more effective if combined with specific reformative plans. By representing Xi as a disturbed person on China's corrupt sports scene, and an effective leader that is willing to make a difference, the state can put all the blames on the incompetent bureaucrats and credit the central government.

The state's reasoning behind the sports industry reform also sheds light on the guiding principle of China's political elites. In today's China, the authorities rule on the basis of performance-based and political legitimacy. According to Seymour Lipset, the stability of a democratic system depends on the "system's efficiency in modernization," which entails economic development, and "effectiveness and legitimacy of the political system," which often refers to electoral democracy.²⁰⁸ While China is not democratic, the same requisites apply, and failure to meet such standards will risk crises of change.²⁰⁹ Since the country's economic modernization, the CCP regime's performance-based legitimacy has already been widely discussed, but its political legitimacy come less under

²⁰⁷ Jiayang FanTaisu ZhangYing Zhu, "Behind the Personality Cult of Xi Jinping," *Foreign Policy*, March 08, 2016, accessed April 20, 2017, <http://foreignpolicy.com/2016/03/08/the-personality-cult-of-xi-jinping-china-leader-communist-party/>.

²⁰⁸ Seymour Martin Lipset, "Some Social Requisites of Democracy: Economic Development and Political Legitimacy," *American Political Science Review* 53, no. 01 (1959): 86, doi:10.2307/1951731.

²⁰⁹ Ibid.; "China," Freedom House, accessed April 21, 2017, <https://freedomhouse.org/country/china>.

the spotlight.²¹⁰ However, this paper proposes an alternative argument – that is, the sports industry reform is an attempt by the state to obtain political legitimacy. It essentially rejects the assumption that the authority of the CCP regime cannot be legitimate, since it is not derived from consent.²¹¹

In fact, with the economic reform and rapid growth coming to an end, the CCP has frequently resorted to political strategies to expand its base of legitimacy. The recent anti-corruption campaign within the political system is an example of such attempt to strengthen the CCP's authority by attacking the flaws of the regime and those who "make up the regime."²¹² In the sports industry, similarly, the state has recognized the defects of the totalitarian system (*juguo tizhi*) and the necessity to disintegrate the bureaucracy that has been holding it together. Although neither of the policy changes goes so far as to challenge the institutional underpinnings of the power abuses, they have both helped legitimize the regime. While it is often believed that only electoral democracy can deliver political legitimacy, research reveals that quality of the government is as crucial.²¹³ By cutting back the power of its sports bureaucracy, the CCP may be able to establish a more transparent and effective organizational structure in the sector, which translates into good governance.

²¹⁰ Yuchao Zhu, "Performance Legitimacy" and China's Political Adaptation Strategy," *Journal of Chinese Political Science* 16, no. 2 (2011), doi:10.1007/s11366-011-9140-8.

²¹¹ Baogang Guo, "Political Legitimacy and China's Transition," *Journal of Chinese Political Science* 8, no. 1-2 (2003): 2, doi:10.1007/bf02876947.

²¹² "The Political Price of Xi Jinping's Anti-Corruption Campaign," *Financial Times*, January 3, 2017, accessed April 21, 2017, <https://www.ft.com/content/3f1938d6-d1cf-11e6-b06b-680c49b4b4c0>.

²¹³ B. Rothstein, "Creating Political Legitimacy: Electoral Democracy Versus Quality of Government," *American Behavioral Scientist* 53, no. 3 (2009), doi:10.1177/0002764209338795.

Moreover, reformation in the sports sector enjoys better publicity than that in other industries. For decades, sport has not only been embraced by the state as a propaganda tool, but also perceived by the masses as a channel to unleash their patriotism and nationalism. Victor Cha argues that “sport acts as an outlet for releasing pent-up historical resentments in ways that cannot be expressed through regular diplomacy.”²¹⁴ In July 2001, when Beijing won the bid for the 2008 Olympic Games, tens of millions people celebrated all over the country, millions celebrated in Beijing, and more than four hundred thousand went on a self-started parade on the Tiananmen Square.²¹⁵ In the same year, a group of a hundred thousand gathered at the city center of Dalian, to march for China’s first appearance in the World Cup.²¹⁶ In short, sport appeals to an enormous population, and entails a lot of national pride, in CCP’s China.

This population became a natural audience for the regime’s political legitimization, when the CCP initiated changes that have been long expected in the sports sector. According to Francis Fukuyama, it is necessary for the state “to be *perceived* as being legitimate by the underlying society” to establish legitimacy.²¹⁷ As the social perception of sport has evolved from a showcase of the national strength to a subcategory of the entertainment industry and an approach to a healthy life, the state also adapts its guiding ideology to meet the society’s new expectations. Because this reformation that is targeted

²¹⁴ Cha, 1292.

²¹⁵ "Recollection of the Moment When Beijing Won the Olympic Bid," Xinhua, July 13, 2002, accessed April 21, 2017, http://news.xinhuanet.com/newscenter/2002-07/13/content_480841.htm.

²¹⁶ "Dream That Lasted for 44 Years Has Finally Come True. A Hundred Thousand Gathered in Dalian to Celebrate the National Team's Victory," Sina, October 8, 2001, accessed April 21, 2017, <http://sports.sina.com.cn/n/2001-10-08/08190146.shtml>.

²¹⁷ Francis Fukuyama, *State-Building: Governance and World Order in the 21st Century* (Cornell University Press, 2004), 26.

at the totalitarian system has a larger audience than most other post-communist reforms, it is also more effective in expanding the regime's political legitimacy.

Despite the CCP's effort to restore legitimacy and sustain the regime, the sports industry reform is also exposed to political risks. First, the elite sports system has been too entrenched in the political machine and the Chinese society to be easily dissolved. The sports bureaucracy not only constitutes the CFA and the CBA, but also 37 local sport bureaus, 31 Olympic sports associations, 41 non-Olympic sports associations, hundreds of research institutes, and thousands of sports schools and institutes.²¹⁸ The apparatuses of this system employs up to hundreds of thousands of individuals. While a delay in the reform will impede the market from achieving its full potential, dissolving and restructuring this monstrous system may also incur discontent and instability from the society.

Also, the privilege that soccer enjoys in the reform indicates that China's political system has become more dictatorial and less consensus-based within the Party since Xi assumed office. Although the recentralization of the soccer market does not intend to affect other sports and aspects of social life, it contradicts the goals of the industry reform, and may lead to negative consequences, such as unbalanced development across sports, environmental degradation, education inequalities, and gender inequalities. It is disturbing that the vision Xi has had for China's national soccer team has overshadowed the more deliberative industry policies devised by the more well-informed officials.

²¹⁸ People's Republic of China, General Administration of Sport of China, *General Administration of Sport of China*, <http://www.sport.gov.cn/>.

Furthermore, while many of China's political leaders are passionate about sports, none of Xi's predecessors had launched state-level reforms for their personal interests.²¹⁹

While the two sports examined in the case studies have taken distinctive paths since 2014, the ultimate goal for the state to facilitate changes in both sectors is to restore and expand its legitimacy. The sports industry reform is composed of economic and political elements, which can fulfill the CCP's long-lasting performance-based legitimacy, and respond the public's demand for political modernization, respectively. Moreover, the reformation in the sports sector is well-publicized because of historical and social factors, and can therefore influence the society more effectively. Despite all the benefits, the reforms are still vulnerable to political risks, namely the transitional cost and the unpredictability of dictatorial system.

²¹⁹ Former President Hu Jintao was a skilled ping pong player, former Premier Wen Jiabao played basketball on multiple occasions, and the former CCP leader, Deng Xiaoping, also loved watching soccer games. "The Leaders' Passion for Sport: Hu Jintao Once Played Ping Pong with Wang Nan," *Beijing Times*, February 22, 2016, accessed April 19, 2017, <http://sports.qq.com/a/20160222/013516.htm>.

Chapter VI: Conclusion

To conclude, China's sports industry reform since the 2010s is a state-led effort that aims to restore and strengthen legitimacy of the CCP regime. In the basketball market, the state has allowed the private sector to lead the privatization reform that it has been pressing for years. In the soccer market, by contrast, the state has re-centralized the resources and distributed them in a way that will most likely fulfill President Xi's vision for the development of the sport. While each sub-sector may take a unique approach to the transformation process, the guiding principles of the state have been consistent. With the recent economic slowdown, the regime hopes to tap the potential of the sports economy, which can serve as a new source of growth, and to dissolve its elite sports system, which now has a connotation of totalitarianism and backwardness within the public. By facilitating this campaign, the CCP will be able to reinforce its political authority, with enhanced economic performance and modernized bureaucracy.

Although this study attempts to give an overview of each actor in the playmaking of the current reform, it mostly focuses on the state actors and primarily analyzes the regime's incentives. In practice, large corporations, the press, and other non-state actors also play substantial roles to the reformation. Methodologically, this research lacks firsthand accounts of the reform from political insiders. Future studies with a holistic approach and more primary sources may alleviate these limitations.

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